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“MOVING MOUNTAINS”:

AN INSTITUTIONAL ANALYSIS OF FINANCIAL MARKETS USING EVIDENCE FROM KENYA

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Summary

This study addresses the gap between macro level theories of financial repression - and their policy recommendations for liberalisation - and detailed micro level evidence of the role of power and of social relations in determining access to specific financial services. It is a study of the embeddedness of financial markets in social relations based in an institutionalist analysis that sees exchange processes as socially regulated and structured. It therefore goes beyond both narrow neo-classical market analysis and political economy analysis of class to explore the importance of a range of social relations to the ways in which a "real" financial market operates.

The approach developed focuses on the organisational form of financial intermediaries. It identifies their ownership structure, and the rules, monitoring and enforcement mechanisms that enable them to function. First, the form of intermediary - private ownership, mutual, or state owned – determines the range of services on offer and their price and non-price characteristics and gives rise to one source of market fragmentation. Second, the dependence of intermediaries both on formal laws such as property rights, and on informal norms and sanctions, means that social relations influence access.

The study then examines the extent, nature and origins of fragmentation in financial markets in Mathira in Central Kenya through an investigation of patterns of supply and demand. This highlights three sources of embeddedness. First, the social, political and cultural relations in which land rights are embedded explain its limited use as collateral. Second, the growing importance of mutual forms of financial intermediary in the area can be better understood once their non-price features and their relationship to social and political factors are explained. Finally, gendered patterns of use are explored using an analysis of intra-household income, expenditure and financial management alongside an examination of gendered enforcement mechanisms. This evidence suggests the complexity of 'real' barriers to entry on both the supply and demand sides and hence, also, of the effects of liberalisation on access to financial services.

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List of Abbreviations

AFC	Agricultural Finance Corporation
ASCA	Accumulating Savings and Credit Association
CBK	Central Bank of Kenya
DCO	District Co-operative Officer
DCU	District Co-operative Union
FGD	Focus Group Discussion
HFCK	Housing Finance Corporation of Kenya
ICDC	Industrial and Commercial Development Corporation
KANU	Kenya African National Union
KCB	Kenya Commercial Bank
KIE	Kenya Industrial Estates
KPCU	Kenya Planters Co-operative Union
Kshs	Kenya Shillings
KTDA	Kenya Tea Development Administration
KWFT	Kenya Women Finance Trust
MFO	Microfinance Organisation
NBFI	Non-banking financial institution
NBK	National Bank of Kenya
NIE	New Institutional Economics
NPL	Non-performing loans
PFP	Partnership for Productivity
RFM	Rural financial markets
ROCE	Return on Capital Employed
ROSCA	Rotating Savings and Credit Association
SACCO	Savings and Credit Co-operative
SCP	Structure-Conduct-Performance
SEDI	Small Enterprise Development Institute
TB	Treasury Bills
UBS	Union Banking Section
WEDI	Women's Economic Development Institute

Kikuyu words

iteti/giteti	group/s
gubasho	advance
harambee	"let's pull together" and used to refer to self-help activities
matatu	public transport vehicle
mbari	homestead
riika	age set
shamba	garden or farm

Exchange rate as at June 2000

UK£1 = Kshs118

Chapter 1 Introduction

This study originated in a concern to interrogate the analysis of financial repression and the measures for financial sector liberalisation that it promoted during the 1990s. The resulting policy recommendations sought to remove controls on the formal sector and increase competition. The removal of interest rate ceilings was intended to raise interest rates so expanding the supply of deposits for investment. As a result there would be expanded access to formal sector credit, and its allocation via the price mechanism would favour projects with higher returns so improving allocative efficiency and hence growth in the economy. However, financial repression theory seemed to be based on a rather narrow set of assumptions that did not significantly analyse the influence of power and of social relations on access to financial services. On the other hand, the empirical literature examining factors affecting access tends to concentrate on specific providers in particular contexts rather than on the market as a whole.

This research attempts to fill this gap. It is a study of the embeddedness of financial markets in social relations based in an institutionalist analysis that sees exchange processes as socially regulated and structured. This approach – termed 'real' markets - goes beyond a narrow political economy analysis of class to explore the importance of a range of social relations to the ways in which markets operate.

This chapter briefly sets out the theoretical and policy context of the research and explains the objectives of the study. It then proposes steps towards the development of an institutional analysis before providing an outline of how the study proceeds.

1.1 Theoretical and policy context

Financial repression refers to measures such as interest rate ceilings, directed credit policies and high reserve requirements. These policies had enabled governments to raise finance for the public sector at low cost and sought to encourage private investment in sectors deemed a priority by government, by offering subsidised interest rates on loans.

The work of McKinnon (1995) and Shaw (1973), using the analytical tools of neo-classical economics, suggested that rather than promoting growth, these policies were in fact having a negative impact on growth. They argued that ceilings on interest rates (both deposits and loans) resulted in a limited supply of savings since interest rates favoured current over future consumption, and made investment in projects with relatively low returns profitable while also favouring more capital intensive projects. Hence policy prescriptions for the removal of such controls proposed that this would result in increased savings mobilisation and expand access to credit through the formal sector, and especially for those who were forced to other wise turn to the informal sector where they faced much higher interest rates. The allocation of credit to projects via the price mechanism would then increase returns to investment in the economy and hence growth rates, resulting in a virtuous circle of savings mobilisation, investment and growth.

Financial repression thinking has also been reflected in debates over the availability of financial services to poor people. The 'rural financial markets' analysis of the 'Ohio School' applied financial repression thinking to these markets, employing the emerging analytical tools of transactions and information costs in the process (Von Pischke, Adams et al., 1983). Their analysis used these tools to explain, for example, the high interest rates of moneylenders as resulting from the necessary costs of screening and default. Once these costs were taken into account, risk-adjusted rates of return could be derived (Nissanke and Aryeetey, 1998); and only if these were unequal would there be evidence that markets were fragmented and this was expected to be evidence of barriers to entry.

This directly challenged the policy conclusions of political economy analysis that saw high moneylender interest rates as evidence of exploitative class relations (Bhaduri, 1977; Bhaduri, 1981) and which had provided a rationale for controlled interest rates in special credit programmes for small-scale producers and especially farmers. Instead, interlinked contracts between credit and land or labour markets were explained in terms of their ability to convey information about borrowers and so to reduce the transactions costs of screening and enforcement. The study of transactions costs also made the point that for borrowers approaching the formal sector the cost of loans was not adequately captured by the interest rate since a range of related costs, including travel, time and bureaucracy (for example, the costs of understanding the system and filling in forms for non-literate people), were also incurred by borrowers. As a result, this analysis explained the role and ongoing use of informal financial systems by poor people in terms of their accessibility and convenience and concluded that the key concern of policy should therefore be to expand access rather than lower price.

These findings gradually made their way into donor policy (McGregor, 1989).[1] Efforts to provide financial services to poor people have also learnt from emerging practice, especially that in Bangladesh, and during the 1990s began to focus on the development of self-sustaining provision through microfinance organisations (MFOs) (Hulme and Mosley, 1996; Wood and Shariff, 1997). Aid funds therefore offered subsidies for the development of the MFO sector with accompanying claims that this would widen access for poor people and extend the market rather than "undermine" it (Adams, Graham et al., 1984) through subsidised credit to users which experience suggested had resulted in unsustainable rural finance organisations and prevented the development of a competitive rural financial sector (Otero and Rhyne, 1994). Despite the proliferation of interventions, evaluation has focused on outreach, in terms of numbers of users, and financial sustainability. Examination of the direct impact on users was no longer a priority (Hulme, 2000), and little analysis of the actual contribution of MFOs to the development of financial markets was made.

The combination of these policy developments in both formal and informal sectors leads to empirical questions as to how they have affected the structure and performance of financial markets and whether they have, in fact, led to improved access and lower prices in informal financial markets and for poor people in particular.

However, financial repression analysis based in a narrow neo-classical understanding of price formation and barriers to entry seems inadequate when viewed in the light of literature revealing the political economy of both rural financial arrangements – termed

[1] Indeed it was the aid arm of the US government that had been instrumental in funding the Ohio School's research (Von Pischke, 1983).

"financial repression from below" (McGregor, 1994) and national banking sectors (McGregor, 1989; Wood and Shariff, 1997). An extensive body of research into rural and 'informal' financial systems, much of it written by economic anthropologists, describes and analyses the complexity of the role that informal finance plays in relation to social and cultural, as well as economic systems (Geertz, 1962; Ardener, 1995; Hospes, 1996). In this light, analysis of barriers to entry based in state regulation, and of information and transactions costs, seem to present an inadequate account of the constraints to broadening access and the reality of market operation. In particular the transactions costs analysis of the new institutional economics has allowed the role of social relations in conveying information in credit arrangements to be recognised (Floro and Yotopoulos, 1991; Udry, 1993; Nissanke and Aryeetey, 1998), but has been unable to adequately theorise it.

Indeed, neo-classical analysis has been criticised for having no adequate basis for understanding 'markets in practice', and of treating them as "abstract" (Mackintosh, 1990; Alcantara, 1992). This body of research– especially into agricultural markets in developing countries – has sought to develop theory inductively through detailed empirical research and 'thick description'. More recently termed 'real' market analysis, this approach is rooted in the substantive approach of economic anthropologists that sees exchange as embedded in non-economic institutions (Polanyi, 1957; Granovetter, 1992) although the debate between 'formalists and substantivists in the study of markets is ongoing (Cook, 1968; Wilk, 1996). These studies demonstrate the nature and extent of market regulation arising from social relations such as religion, ethnicity, class, and gender (Mackintosh, 1989; Harriss-White, 1996; Pujo, 1996; Rogaly, 1997).

These 'real' market studies are theoretically based in 'old' institutionalist economics. Rejecting the methodological individualism of neo-classical economics, 'old' institutionalism investigates patterns of behaviour that demonstrate habitual economic activity and examines how these are embedded in social institutions (Hodgson, 1988). Markets can consequently be viewed as exchange processes regulated and structured by social institutions (Pujo, 1996). This therefore provides a theoretical approach within which to locate analysis of the embeddedness of financial markets more broadly.

1.2 Objectives of the research

This study seeks to build on these developments in the analysis of 'real' markets and its two main purposes are:

(i) to develop an holistic analysis of financial markets using an 'old' institutional approach;

(ii) to systematically examine the nature and extent of the embeddedness of selected financial markets in social institutions.

The requirements of an holistic analysis are that it can deal with the variety of types of financial arrangement in operation. The labels 'formal' and 'informal' generally refer only to the state as a source of regulation in markets, but regulation may also arise from social sources. The approach must therefore be able to internalise this categorisation. Moreover, for the purposes of a 'market-wide' analysis it must allow the relative roles and uses of the different types of financial arrangement to be understood.

On the other hand, the requirements of a systematic analysis of embeddedness are that it can conceptualise, describe and analyse the influence of the variety of social institutions that might be in operation. In the terminology of neo-classical approaches, this is therefore an examination of the nature, extent and origins of fragmentation in the market.

In the light of the above discussion, related objectives of this study are also:

(iii) to investigate the role of MFOs in financial markets, in particular, to examine to what extent access has been improved;

(iv) to review the experience of financial sector liberalisation and the extent to which it has contributed to expanded access.

The field methodology of the study is necessarily innovative, since studies with a similar purpose could not be found in the literature. The 'market' was defined geographically by focusing the research in and around the small town of Karatina in Mathira Division of Nyeri District in Kenya's Central Province. A survey of the supply side identified the full range of financial services available and collected data on products, prices and quantities of funds. A survey of the demand side collected data on the use of financial services. The dimensions of embeddedness were then examined through quantitative assessment of differential use based on socio-economic characteristics such as wealth, gender, age and so on. Qualitative data is used to explain the findings in more depth. The use of both quantitative and qualitative methods seeks to achieve rigour through their analytical interaction.

1.3 Towards an institutional approach

During the first phase of fieldwork two aspects of group-based financial arrangements emerged as particularly interesting. First, those taking loans from group funds were willing to pay high interest rates that they jointly agreed with other members because they also received this interest as a dividend at the end of the year. Second, many respondents explained that they had joined group-based financial systems because they knew they could get a loan, although they might have joined long before their demand for the loan actually materialised. These features highlighted the importance of their user-owned nature and of the interconnectedness of savings and loans in these systems. This precipitated the need for an alternative framework within which these characteristics could be analysed.

These findings provoked me to step back from the conventional focus on the supply and demand for savings and loans to examine the nature of financial intermediaries. They may be viewed in terms of their ownership structure and the rules and enforcement mechanisms that are required to enable them to operate. The three main types of financial intermediary arise from three different forms of collective action: banks arise from the private firm (private ownership); Savings and Credit Co-operatives (SACCOs), Rotating Savings and Credit Associations (ROSCAs) and Accumulating Savings and Credit Associations (ASCAs) from the co-operative form (collective ownership); parastatals are formed by the state (collective ownership via the state). Microfinance organisations owned by Non-Governmental Organisations (NGOs) are a charitable but privately owned form. Moneylenders and borrowing from friends and relatives are direct lending arrangements in which there is no collective action. Each type of intermediary has a different set of rules, monitoring and enforcement mechanisms that result from its form.

This approach suggests that the key elements of organisational form are determined by ownership: these determine how the rules and enforcement mechanisms are set up and the ways in which they operate. Moreover, organisational form then constrains who can access funds. Hence ownership, via organisational form, cannot be separated from the question of access.

This conceptualisation is useful in two ways. First, it can explain fragmentation in financial markets arising from the presence of different types of financial intermediary. In the terms of the new institutional economics (NIE), each type manages information and transactions costs in fundamentally different ways. This demonstrates the difficulty of analysing costs and prices in isolation from the governance characteristics of the providers.

Second, in allowing a focus on the rules and enforcement mechanisms, it can be seen that these are embedded in social institutions since both formal and informal rules, norms and sanctions are necessary to support their operation. For example, formal legal property rights may be necessary to both formal and informal financial systems. Informal norms of trust and morality also underlie their operation. Moreover, this focus offers a systematic means through which the relationships of different socio-economic categories of users to the rules, monitoring and enforcement mechanisms can be investigated. Since social relations influence resource endowments, social status and political position, they also determine the way in which socio-economic groups relate to rules and enforcements mechanisms. For example, the norm in many societies that women do not legally own land means that they are unable to engage in borrowing arrangements with financial intermediaries that require land as collateral. Thus a link can be established from barriers of entry (or use of specific services) to social structures.

1.4 Outline of the study

The study therefore investigates the extent, nature and origins of fragmentation in Mathira's financial markets and examines whether this conceptualisation of intermediaries contributes to a systematic and holistic real market analysis. It proceeds as follows.

Chapter Two reviews in more depth the policy and theoretical context discussed above. Chapter Three then presents an institutional view of financial intermediation expanding the brief outline already given. Chapter Four discusses the elements necessary for the empirical study of real financial markets and describes how these were carried out in this study. It then turns to the context in which the study is set. Chapter Five reviews the key elements of social, economic and political structure that underlie this market.

The subsequent five chapters describe and analyse the findings of the empirical study. Chapter Six starts by describing the range of financial services on the supply side and examines their pricing and profitability. This is followed in Chapter Seven by evidence from the demand side survey regarding patterns of financial service use in Mathira. Together these two chapters suggested patterns of use with three key features. First, the extent of local lending by the banking sector was relatively low compared to other types of intermediary; in particular, there were no cases of secured lending against land in the demand side sample. Given the importance of land policy for registration and titling in Kenya and elsewhere, this merited further investigation and is examined in Chapter Eight. Second, the evidence suggested the extensive use of user-owned financial systems, or mutuals. This also merited further detailed investigation because, as explained above, these financial intermediaries have characteristics that seem to be particularly hard for transactions costs approaches to analyse. Chapter Nine explores the reasons for this.

Finally, there was clear evidence that the use of ROSCAs was gendered, with much more extensive use by women than men. Chapter Ten develops a gendered analysis of financial service use that has two elements. First, the influence of gendered intra-household economic relations for the control of income and division of expenditure responsibilities is examined. These influence the nature of financial flows that men and women wish to intermediate and hence their demand for financial services. Second, it examines the explanations of this gendered use given by respondents that exposed the differential effect of the informal sanction of shame on the ways men and women were able to engage with ROSCAs.

As a whole, this evidence indicates that the two main sources of fragmentation that the institutional approach identifies – that arising from different forms of intermediary and that arising from the embeddedness of the rules and enforcement mechanisms in power and social relations - were operating in Mathira. Analysis of the relative use of banks and mutuals shows how their different characteristics as intermediaries relate to underlying social relations. Mutuals are popular because they embody the multi-dimensional character of social relationships and their negotiability, which is key to livelihood strategies. SACCOs, in particular, allow public legitimacy to be built through inclusionary strategies that mobilise social networks and at the same time enable access for leaders to wider circuits of patronage and accumulation.

The gender analysis shows how these social relations cause fragmentation in financial markets through the ways in which they pattern the demand and supply of funds for intermediation. Moreover, the socialisation process of men and women also affects how they engage with rules and enforcement mechanisms.

Land plays a key intermediating role in access to financial services through its role as collateral. Hence it is the social relations that mediate access to land that also pattern the access of socio-economic groups to financial markets.

With this evidence of fragmentation, Chapter Eleven concludes by examining the implications for real market approaches and new institutional economics and their respective approaches to the study of financial markets. The approach presents a clear theorisation of the ways in which power and social relations influence access to financial intermediation and provides a basis for understanding how socio-economic groups are differentially located in markets. Since "who you are" matters, this results in barriers to movement on the demand side which transactions and information costs approaches are inadequate in theorising because of the multi-dimensional nature of the relationship between social relations and financial intermediation.

Finally, the implications for policy, both generally and in Kenya, are discussed. Further research is necessary to examine the financial market in other specific locations and so to draw out "middle order generalisations". However, in order to inform policy, the need for a shift away from universal models to an understanding of the inter-linkages between different components of the financial system in a specific national context is clear. Moreover, approaches to designing pro-poor policy and interventions have to balance the need to adapt these to existing social relations or to restructure social relations in order to broaden access.

Chapter 2 Financial Markets: Theory and Policy

This chapter presents the policy and theoretical contexts in which this study of financial markets is located. The primary policy context is that of financial sector policy reform in the 1990s. While there is an extensive literature about its operation and impact on the formal financial sector, the impact on informal finance is less well researched. Given the evidence regarding the ubiquity and extent of informal finance, this is problematic, especially because of the importance of informal finance to the livelihoods of poor people.

After providing some background to policy debates over the informal financial sector, theories of the financial market are then reviewed. Two main theoretical perspectives are considered. First, analysis based in neo-classical theory of the interaction between the formal and informal sectors in the context of financial sector reform are reviewed. But it is the new institutional economics analysis of information and transactions costs - building on neo-classical theory - that has dominated theoretical developments in the analysis of financial markets in the last 20 years. Second, political economy analyses of credit markets have provided the contrasting basis for theorising and policy prescription. The view of markets as 'real' which has been developed in studies of agricultural markets in the last decade provides an analytical framework going beyond narrow political economy analyses based on class relations to a broader understanding of the variety of social institutions that influence market operation.

Following this review of theoretical approaches, two further aspects of the literature are reviewed to provide context for the study. First is the emergence of microfinance organisations in the 1990s. The greater appreciation of the role of informal finance and the understanding of it offered by the NIE has supported this development in lending to poor people. Second, the role of informal finance - and in particular group-based systems – has been analysed from the perspective of the ways in which poor people employ risk-reducing and sharing strategies.

2.1 Financial sector reform and informal finance: an overview

Since the late 1980s Financial Sector Reform programmes have become an increasingly accepted component of structural adjustment packages, in Africa and elsewhere. These programmes drew their theoretical origins from the financial repression thinking of McKinnon and Shaw (Fry, 1995). While these programmes have evolved over time (Fry, 1997) and their impact has been extensively debated, their core design remains intact.

The financial repression thesis suggests that measures such as interest rate controls, high reserve requirements and directed credit policies impose distortions on financial intermediation. Hence that the removal of interest rate ceilings, for example, improves the quality and quantity of saving and investment in the economy. On the supply side higher deposit interest rates mobilise savings since higher interest rates produce less of a bias for present over future consumption. On the demand side, raising the interest rate improves the efficiency of investment through deterring low-yielding investments that would previously have qualified (and especially in the case where investments may have been selected by administrative systems rather than price selection). With improved allocative efficiency of the funds invested output growth is generated that further stimulates savings as incomes rise (Fry, 1997).

One of the underlying "stylized facts" of the financial repression analysis is that financial systems in developing countries are dominated by commercial banks (Fry, 1997). While commercial banks are the dominant institutional form within the formal financial sector, research has increasingly demonstrated the extensive and pervasive presence of informal financial arrangements in low-income economies as a whole (Wai, 1992). Indeed, the vast majority of transactions fall outside the regulated formal sector (Aryeetey and Udry, 1997). Since informal arrangements are more likely to be used by poor people, the size of individual transactions is relatively small. This is another reason why formal sector policy has tended to ignore them. Estimates of the size of informal financial arrangements are of course difficult, but available estimates suggest that informal arrangements have supplied between 30 and 95% of the credit needs of rural or urban populations (Germidis, Kessler et al., 1991). These figures also tend to exclude informal arrangements based on reciprocity between relatives and friends. If these were included, then the extent and importance of informal arrangements would be even greater. But even without these, some evidence suggests that the size of flows circulated through informal finance within the household and non-corporate sector is substantially larger than flows channelled through formal institutions (Nissanke and Aryeetey, 1998,279).

The ILO first coined the terminology of the informal sector in 1972 to refer to the large numbers of self-employed people engaged in small-scale economic activity whose labour arrangements, as a result, fell outside of those arrangements that were covered by employment law (ILO, 1972). The origins of the sector and causes of its growth are much debated (Castells and Portes,1989). The term has since been used to refer to those parts of the economy that fall outside governmental regulation but Castells and Portes point out that the term 'informal economy' is not characterized by particular activities but by "the social definition of state intervention... [whose] boundaries vary in different contexts and historical circumstances" (Castells and Portes, 1989:32). In the context of finance, this has led to a definition of the informal financial sector which "describes participation in all commercial saving and lending activity taking place outside of formal or established financial institutions" (Aryeetey, 1995:3) and it is this definition that is adopted here. Formal financial institutions are therefore taken here to be those that are set up under government legislation that regulates the terms and conditions on which financial intermediation is conducted.

There are two views in theory as to the origins of the informal financial sector, although these are not mutually exclusive. One view emphasises that it exists because of financial repression: in other words, that it has developed as a response to controls and deficiencies of the formal sector and is in this sense a reaction to financial regulation and repression. Another view proposes that informal arrangements pre-date formal arrangements and that in this way the financial sector is intrinsically dualistic. As has been pointed out in the literature, these differing understandings drive different policy responses (Germidis, Kessler et al., 1991). Where the informal sector is seen as a response to financial repression then the need is for institutional and operational reforms via financial de-regulation. Whereas if its origins lie in inherent dualism then policy focus needs to be on the transformation of the informal sector through for example making links between informal and formal sector financial institutions.

Ghate draws attention to the efficiency consequences of these differences in origin of the informal sector (Ghate, 1988). If the financial sector is intrinsically dualistic then if the informal sector provides credit to sector not reached by the formal sector and returns in these sectors are high, then it provides an "ameliorating contribution" to efficiency in the face of regulation and a second best solution to complete liberalisation (ibid:73). However, if the government is attempting to address through regulation what it understands to be a divergence between private and social returns, for example, by reducing the availability of credit for activities such as land speculation, then the informal sector only makes this contribute to the extent that the regulatory response is inefficient in achieving this. Under these circumstances, liberalisation may therefore only produce improvements in allocative efficiency if government has (a) incorrectly identified deviations of private and social returns or (b) implemented a sub-optimal regulatory response. Liberalisation may therefore itself be a sub-optimal response in terms of overall allocative efficiency and the informal sector may instead provide a second-best solution. If, on the other hand, the informal sector is inherently more efficient than the formal sector then it provides a "net additive contribution" even in the absence of formal regulation which liberalisation would capture.

In most definitions of informal financial arrangements - as in that above - a dividing line is drawn between 'commercial' and 'non-commercial' forms of finance in which 'non-commercial' arrangements are excluded. However, arrangements based in groups are usually treated as part of the definition of the informal sector. This draws on Adams' three-fold distinction (see Callier,1990) between:

(i) non-commercial arrangements based on reciprocity between relatives, friends and neighbours;
(ii) commercial arrangements such as those engaged in by moneylenders and deposit- takers and
(iii) group arrangements such as rotating savings and credit associations (ROSCAs).

The exclusion of an entire set of financial arrangements that are based on reciprocal social relations is problematic. As evidence in a range of anthropological studies suggests, financial arrangements between friends and neighbours form part and parcel of the web of financial arrangements in a community through which people seek to diversify risks, develop social insurance or accumulate capital (Platteau and Abraham, 1987). It might be proposed that the presence of an interest rate might adequately take account of the difference between commercial and non-commercial arrangements. However, Adams points out elsewhere (Adams, 1994) that the terms of informal financial contracts, especially the costs of borrowing, encompass a range of elements in which the interest rate is only one, for example, the presence of tied transactions. He also points out that informal contracts may not specify a repayment date or repayment schedule. This suggests that distinguishing reciprocity from commercial arrangements may in fact be rather difficult in practice. Moreover, as indicated above, group arrangements are usually regarded as part of the informal sector, but these also operate in ways that use norms of reciprocity or even redistribution with many operating welfare funds for example (Nagarajan, Meyer et al., 1995, 309).

Similar definitional concerns have been raised by Bell in the context of the All India Credit Survey where he takes issue with findings that the banks and co-operatives have successfully brought about the downfall of moneylender. He suggests that "the lender's guise is very much in the eye of his clients" (Bell, 1993:190) and might to some be a relative, and to others a farmer or trader. This, he suggests, means that it is necessary to understand what a category such as moneylenders means in practice, if the influence of public policies on informal lending is to be understood.

Other definitions make distinctions between temporary and ongoing arrangements, for example Asian Development Bank (1990). But this also appears arbitrary - especially in the context of seasonal and longer-term variability in the surplus of funds. Rather than applying a preconceived definition it is important to examine the actual array of financial arrangements in evidence before making analytical distinctions between them. This may be particularly significant since many of these definitions have been proposed as a result of financial arrangements in Asia rather than Africa.

As financial liberalisation policies were being designed and implemented in the late 1980s and early 1990s there was some recognition of the importance of the informal sector (World Bank, 1989; Asian Development Bank, 1990; Callier, 1990; Germidis, Kessler et al., 1991). In particular this was partly borne of a view that given its size and inherent strengths, seen as resulting from the flexibility and responsiveness of the informal financial sector (Adams and Fitchett, 1992), there was a risk that financial sector reform programmes might in fact be frustrated (Acharya and Madhur, 1983). More broadly there arose a view that financial systems development and deepening was unlikely to be achieved by focusing on formal sector institutions alone (Germidis, Kessler et al., 1991,15). This gave rise to policy recommendations for:

(i) the development of linkages between formal and informal financial agents;

(ii) the potential for formal financial institutions to learn from the practices of informal agents, and themselves 'informalise' or 'mimic' them, so creating additional competition;

(iii) to transform informal into formal financial institutions;

(iv) to regulate parts of the informal sector in order to improve market structure.

However, while it has been pointed out that an adequate understanding of informal finance is a pre-requisite for satisfactory financial policy analysis it does not appear that an adequate understanding has yet been established, and especially not in African contexts with the need for detailed institutional knowledge and investigation of the transmission mechanisms involved, i.e. the means by which changes in price and quantity in one sector affect those in the other. (Aryeetey, Senbet et al., 1997; Aryeetey and Udry, 1997). Given that financial sector reform has proceeded apace in many countries, clear empirical questions arise about the ways in which financial sector reform has in practice affected the informal financial sector. Such a concern has a number of dimensions:

(i) the need to identify the nature of informal financial arrangements in particular social and economic contexts;

(ii) to understand the inter-linkages between the formal and informal sectors;

(iii) to investigate how prices and quantities in the informal market have been affected by formal financial sector policies - to what extent has the informal market remained immune;

(iv) to find out how have financial arrangements actually changed - has there been increased competition, have linkages between the formal and informal sectors been further developed or set back;

(v) to find out how has policy reform which explicitly deals with informal financial arrangements been conceived and implemented and with what effect.

2.2 Theories of financial markets

The choice of theoretical frameworks in which to develop an analysis of financial markets is two-fold. First, is the framework of neo-classical economics and the new institutional economics, which has developed from it to analyse the functioning of economies in the presence of imperfect information and transactions costs. Second, is the approach of political economy which has extensively considered the operation of credit markets, and in particular the way they are linked to output and input markets. This latter approach has given rise to 'real market' approaches, which embrace the approach of 'old' institutional economics more recently brought to the fore by theorists such as Hodgson, but has not yet been consistently applied to the functioning of financial markets.

2.2.1 Neo-classical approaches

As was pointed in Chapter One (p11), financial repression analysis is based in neo-classical analysis that assumes that economic agents - households and firms - act to maximise their utility in the presence of complete information. This results in an upward sloping supply curve for savings in which interest rates reflect savers marginal preferences for future over current consumption. A falling demand curve for investment funds reflects the declining marginal returns to investment projects open to entrepreneurs in the economy. Allowing supply and demand to freely interact will bring about market clearing interest rates at which the marginal returns to investment will equate with savers marginal preferences for future over current consumption.

The application of these to analysis of the financial market under a situation of financial repression where an informal financial sector exists, has required neo-classical analysis to propose a dualistic model through which analysts have debated how formal and informal sectors will in fact interact.

Acharya and Madhur dispute the view that linkages between the informal and formal credit markets can act to frustrate the intended effects of monetary and credit policy due to highly elastic supplies of "black" liquidity originating in the informal sector. They set up a model in which demand from the formal sector spills over into the informal sector. With this assumption, and borne out by evidence based on the Indian financial market, credit rationing in the commercial bank sector forces demand to spill over into the informal market thereby producing an increase in interest rates in the informal sector also. They argue that the "no impact" result will only pertain in certain special cases: first, where the supply of informal credit is infinitely elastic and hence shifts in the demand function will have no effect on price. Second, where supply in the informal credit market is related to the formal market in a one for one inverse relationship so that a contraction in commercial bank credit results in an equal expansion of supply in the informal market with no net effect on price. Third, where there is absolutely no spill-over effect and hence the supply and demand schedules in the informal market are unaffected (Acharya and Madhur, 1983). The implications of their analysis for liberalisation are that removing restrictions on credit supply will result in a reduction in informal sector interest rates as demand returns to the formal market.

Roemer presents a partial equilibrium analysis, which by contrast to Acharya and Madhur, allows for a spill-over of supply as well as demand into the informal market. This model assumes a segmented market prior to regulation with the informal market demanding a risk premium over the formal market. The impact of credit controls which pushes interest rates below the pre-existing equilibrium in the formal market then changes both the supply and demand for funds in the informal market as a result of both a spill-over of unmet demand from the formal market, and a supply of funds for investment seeking returns higher than those the formal market can offer.

This model therefore implies that the impact of regulation may, under certain conditions of the supply and demand curves, be to *lower* rates in the informal market. The impact of reversing this process through removing controls on interest rates would therefore be to raise informal market rates and benefit a) borrowers who have been squeezed out of the formal market and therefore can return to the formal market without facing the risk premia of the informal market and b) moneylenders who deal only with the informal market who would be able to raise rates and capture a larger market share (since there would at the same time be a return of funds from the informal to the formal). Liberalisation would hurt privileged borrowers who have access to funds at controlled interest rates and borrowers with no access to the formal sector who would now face higher rates in the informal segment (Roemer, 1986).

The transmission mechanism proposed here assumes that the impact of regulation is to drive deposits and other sources of funds available for lending into the informal market. Roemer concludes by suggesting that arguments for de-regulation that are made on the basis of increasing savings channelled through the formal sector, will only happen at the expense of savings channelled through the informal system. But Aryeetey considers Roemer's view that supply will spill-over into the informal market in the same way as demand, as unrealistic. First, he argues, that it is often not permitted by law; second, it ignores problems of information deficiencies that formal lenders would face in the assessment of risk. Third, transactions costs of lending to insecure borrowers would be higher and would require a rise in rates in contrast to the fall in informal sector interest rates that Roemer anticipates, or alternatively it would significantly reduce the risk premium available to lenders (Aryeetey, 1995). This said however, there remains the possibility that there can be some supply spill-over in practice by those with funds to invest and who may be able to become informal sector lenders.

These theoretical arguments, therefore, present scenarios of prices and quantities in the informal market rising, falling or staying the same as a result of liberalisation. The key issue here is the empirical question of the extent and nature of the interaction between the formal and informal parts of the market on both the supply and demand side. This suggests the need to understand the extent to which demand is indeed 'specific' to each sector or 'non-specific' and capable of moving between sectors (Nissanke and Aryeetey, 1998). That is, which borrowers and depositors have the choice to engage in one market rather than the other? Ghate, for example, suggests that there is a spectrum of credit needs which at the extremes are specific to each of the formal and informal markets. Hence, lending for long term fixed capital in the large-scale sector can only be supplied by the formal sector, while short term consumption credit needs can only be fulfilled by the informal sector. But needs in the spectrum in between these two extremes might be supplied by either sector (Ghate, 1988).

On the supply side, the question of inter-linkages also arises. That is, the extent to which excess funds can flow from the formal into informal markets e.g. via moneylenders who borrow from banks, and the extent to which informal sector providers deposit funds into the formal system for on lending. These types of relationship are termed 'financial layering' (Floro and Yotopoulos, 1991) and although they may raise the costs of intermediation in a fully integrated market (Fry, 1995) may present an improvement over complete separation.

These views regarding financial markets together suggest that the degree of fragmentation of the financial market is the major concern. In order to establish the impact of financial sector reform in the informal market, it is therefore necessary to establish empirically the extent and nature of inter-linkages between the formal and the informal financial systems on both the supply and demand side.

2.2.2 New Institutional Economic approaches

New institutional economics (NIE) has developed neo-classical analytical tools based on methodological individualism particularly fruitfully in relation to credit transactions in low-income countries by incorporating an understanding of the influence of imperfect information and transactions costs such as those of screening, monitoring and enforcement. Akerlof and Stiglitz have developed a very specific strand of analysis arising from the theory of imperfect information which sees institutions as substitutes for missing markets where risks are pervasive, markets incomplete and information is asymmetric and costly to obtain (Bardhan, 1989). On the other hand writers such as Coase, Demsetz, Alchian, Williamson and, perhaps most notably, North, have examined the role of transactions costs to develop an endogenous theory of institutions and in particular property rights, which relaxes rigid assumptions of optimising rationality. Since it is the first strand of the NIE that has been most dominant in the study of financial markets, this is first discussed before turning to the broader NIE approach associated with North.

The work of Hoff and Stiglitz (Stiglitz and Weiss, 1981; Hoff, Braverman et al., 1993) has demonstrated how credit markets are subject to particular information, monitoring and enforcement problems due to the inter-temporal basis of their transactions. These features give rise to moral hazard and adverse selection in credit transactions. Moral hazard is the situation in which lending (or more often insurance) affects the behaviour of the borrower in that s/he may take less care or take more risks if the funds at stake are not their own, and this helps explain the use of collateral as a feature of credit markets. Adverse selection refers to the fact that if price alone is used to allocate credit then projects able to produce the highest returns are also likely to be riskier hence lowering portfolio quality. This problem therefore results in lenders rationing quantity at a given price.

The imperfect information paradigm has been used to explore a number of features of informal financial arrangements. In this approach, interest rates are understood to comprise four components: the cost of funds, risk of default, transactions costs of providing the service and profit, or a monopolistic component dependent on the alternatives available to the borrower. One key set of proponents - the 'Ohio School'[2] - argues that informal financial arrangements, especially moneylenders, charge relatively high interest rates because they face high risks of default and lack legal means of enforcement. They argue that the political economy school has over-emphasised the

[2] The Ohio School includes Dale Adams, J D von Pischke and Douglas Graham.

monopoly element involved in pricing on the basis that money-lenders usually lend as a part of their business and not as their sole business and hence that there often is competition in the lending market (Von Pischke, 1991). They further argue that the cost of funds in low-income countries is necessarily high due to the general scarcity of liquidity and the opportunity cost of funds (Wai, 1957).

This approach therefore suggests that once allowance is made for the costs of obtaining information about clients and monitoring and enforcing contracts, along with the costs of loss of funds through default, then returns to lending would be comparable across market segments, for example, between moneylenders and banks, so that there is in fact a unified underlying market for funds. Nissanke and Aryeetey (1998) therefore distinguish between a *segmented* market and a *fragmented* market on the basis that fragmentation is evident when returns adjusted for risks and transactions costs are not comparable between market segments. The term segmentation describes a process of normal specialisation between products that are evened out once risk-adjusted returns are calculated. Many researchers have recognised the segmentation of informal financial markets and suggested that this is due to variables such as locality, type of lender, the trade, service or sector being financed (Ghate, 1988). Remaining variations in returns are therefore explained in terms of imperfections in the market due to, for example, barriers to entry.

Furthermore, the argument is also used from a borrower perspective. It is argued that a direct comparison of interest rates between the formal and informal sectors is an inadequate comparison of the actual costs faced by borrowers as a percentage of the loan amount. Borrowers must incur the physical costs of travel to local banks as well as the opportunity cost of time necessary to undertake the trip; the payment of administration fees for loan applications; and the likelihood that bribes are necessary to bank officials. Once these costs are included, they argue that the relative costs of formal finance rise and the seemingly high costs of informal finance represent the price of convenience, proximity and flexibility of financial arrangements.

The theory of imperfect information has also been used to help explain informal financial arrangements that inter-link transactions between credit and other goods or service markets (inputs, outputs or labour) (Braverman and Guasch, 1986; Hoff, Braverman et al., 1993). Informal financial arrangements are able to make use of local sources of knowledge and specific social mechanisms to overcome screening, monitoring and enforcement costs. For example, rotating savings and credit associations (ROSCAs) are able to operate due to the degree of 'insider' knowledge members have about each other and their ability to enforce compliance through the use of local social sanctions, such as non-cooperation in other aspects of daily life.

Despite the extensive development of this theoretical approach, the application of the theory faces considerable empirical problems and Toye complains that little effort has been put into the definition and measurement of transactions costs compared to the "weight of theorising which has developed from it" (1995:49). However, it is in the context of credit transactions that a number of studies have been undertaken.

Aleem (1990) advances an analysis of moneylenders in Pakistan in which he incorporates screening, transaction and default costs into the cost of lending in order to examine whether higher interest rates over the formal market are indeed justified. He tentatively concludes that lender's average costs exceed their marginal costs and suggests that a Chamberlinian model of imperfect competition can explain this. In this model there are few barriers to entry, in fact there are too many lenders, but there is strong product differentiation among lenders. This product differentiation, he argues, is caused by imperfections in the flow of information on the supply side - in terms of lender's screening processes - and on the demand side because borrowers do not have sufficient information about the terms and conditions offered by other lenders. He further explains that borrowers find it difficult to move between lenders because of the long screening process they would be submitted to (the process tended to be carried out over at least a year with the lender observing borrower characteristics with small initial loans); because they could not be sure of the outcome of this process and the terms they would eventually be offered. Further, since the borrower did not wish to jeopardise his relationship with his existing lender by approaching another and borrowing was related to marketing all of the harvest through a particular lender, using multiple lenders was not an option. Finally, that they would have problems obtaining credit from another lender if their current lender were to refuse to give them a loan.

Floro and Yotopoulos (1991), in the context of agricultural credit in the Philippines, examine the hypothesis that interest rates reflect transactions costs of lending "as determined by the character of personalistic relations between the parties" (ibid:17). The analysis examines inter-linked transactions with other markets. The approach therefore attempts to adjust returns on transactions in relation to the related costs involved in other markets. They conclude that these "personalistic relations" enable information barriers and moral hazard problems to be overcome between particular groups of borrowers and lenders. However, these "personalistic relations" are constructed on the basis of social and political institutions such as kinship, which they indicate underlie the character-based lending that takes place. Information problems are therefore being overcome through the use of underlying social institutions.

Examining credit transactions in a village in Northern Nigeria, Udry finds that the majority of credit transactions occur within the village and between kin. This enables the moral hazard problem to be minimised, as information on wilful default is readily available. He also finds that the use of collateral and inter-linking of contracts with other markets is hardly used. He concludes that credit transactions in this context are therefore state-contingent contracts; that is, the lender can readily verify whether the circumstances leading to default are merited due to the failure of the investment as a result of adverse shocks. However, the borrower does not tend to be regarded as being in default and will pay lower interest rates than if the investment is a success so resulting in a degree of risk pooling across households, thereby helping households cope with idiosyncratic shocks. However, the village presents a boundary to state-contingent lending of this kind and covariant risks faced by the village cannot be dealt with, rather these are diversified through long distance trading relationships with traders accessing credit that they on-lend locally. Given this situation formal sector lenders cannot compete with lenders within the community in making state-contingent loans without the development of forms of collateral (Udry, 1993).

In a recent study of informal financial arrangements in four African countries, the view that interest rates are higher in the informal sector for reasons of default risk and transactions costs is tested on data collected from informal financial providers about their methods of screening, monitoring and enforcement and their records of actual default. Nissanke and Aryeetey (1998) conclude that, contrary to the theory, administration costs incurred by lenders (as a proportion of loan size) are lower in the informal sector than in the formal sector and that it is therefore difficult to attribute differences in interest rates to these . They found that transactions costs were influenced by proximity to the lender and the extent of personal relationships, and that the strength of factors such as social cohesion and community organisation influenced perceptions of risk. Further that the experience of default in these arrangements also resulted in lower costs for these lenders suggesting that risk-adjusted returns are not comparable across market segments. They conclude that the market for funds is strongly fragmented. They also find little evidence of financial layering on the supply side to overcome this fragmentation. The study concludes that rather than liberalisation resulting in a reduction in the size of the informal sector as the parallelist theory of its origins suggests, the informal sector has shown growth and dynamism in responding to increasing demand from the real sector in the context of a more liberal economic and political climate. The regulatory environment, amongst other factors, has not developed in ways that enable such fragmentation to be overcome.

These studies demonstrate that the analysis of imperfect information and transactions costs adds a considerable dimension of understanding to informal financial arrangements. Aleem's study suggests that lenders can develop an information base on borrowers, which means that they become locked in and face high exit costs allowing the lender to raise prices and extract rent from this information base despite over-supply in the market as a whole. Moreover he suggests that methods of information sharing exist between moneylenders and present borrowers with problems of movement between lenders. Other researchers have also offered evidence of the difficulties clients face in exiting tied credit arrangements if they attempt to sell their crop elsewhere (Bell, 1993; Olsen, 1994). These tactics along with the heavy inter-linking of arrangements with output markets suggests that additional factors may be at work in fragmenting the market, not least the path-dependence involved in information accumulation by lenders about their clients over time which enables information itself to become an instrument of economic power (Harriss-White, 1999:272).

The studies by Floro and Yotopoulos and Nissanke and Aryeetey are more explicit about the presence of factors at work in the market that are not explained by their analysis. Both studies suggest that residual variation in their results (that is not accounted for by transactions, information and default costs) might be explained by the presence of personal and social relations. Thus, while the new institutionalists explain the transmission of information and reduced transactions costs in informal financial arrangements through the presence of social institutions, the costs of conveying information through social and personal networks are clearly not open to measurement. Given this problem, focusing the analysis on costs to explain risk-adjusted returns presents an incomplete explanation of empirical results.

In conclusion, by directing our attention to information, transactions costs and risks, this strand of the NIE permits an appreciation of the fact that there are a variety of institutions at work which enable information to be transmitted and transactions costs to be reduced.

Further, a focus on institutions also importantly demonstrates that formal legislated rules are only a part of the picture. Having defined institutions as "the rules of the game of a society, or more formally, as the humanly devised constraints that structure human interaction", North (1995:23) goes on to distinguish formal and informal rules, that is, those which become codified in common and statute laws and regulation and those which do not. Analysis of institutional arrangements also shows the ways in which so-called informal systems supplement and support the enforcement of formal rules in providing the basis of social order (DiMaggio, 1994; Platteau, 1994). This therefore suggests that a continuum of institutional arrangements is at work. But as Shipton concludes from his study of informal finance in the Gambia, transactions costs are too simple a concept to capture the "reasoning behind rural Gambian's individual or collective decisions about entrustments and obligations" (Shipton, 1994:284) and the multi-dimensional nature of these social ties and cultural traditions, and that "if these financial systems are to be understood as markets, they are certainly not unified or discrete ones" (ibid:311).

The broader strand of the NIE associated with North challenges the narrow rational choice assumptions of neo-classical economics to suggest that institutions are a means through which actors deal with the information and transactions costs involved in economic activity (North, 1990). He suggests that actors may use "mental constructs that can result in persistently inefficient paths" (ibid:8) where transactions costs are not trivial. He also allows that bargaining power is important and that behaviour may be influenced by vested interests, inertia and lock-in. Thus he argues that it is necessary to understand how "institutions alter the price paid for one's convictions and hence play a critical role in the extent to which non-wealth maximising motivation influences choices" (ibid: 26).

While this approach suggests bounded rationality for actors, it does suggest that institutions evolve to solve economic problems and that they will evolve efficiently in response to changing transactions costs over long periods of time. The analysis then consists of finding out which economic problem the institutions exist to solve – an *ex post* rationalisation (Harriss-White, 1998). As Toye suggests: "there are many reasons why one cannot presume that institutions will evolve efficiently, even over long periods of time. They are all rooted in the fact that individual can and do choose to address existing institutions in a multitude of different ways." (Toye, 1995:64). North's account of the emergence of institutions has therefore been criticised as narrowly functionalist and reductionist suggesting that institutions are what they do, and do not necessarily have meaning beyond this. While this approach does allow that behaviour is influenced by institutions which reflect rules and norms and that these may evolve in relation to power relations, it does not theorise their origins or persistence as arising from a wider set of social relations and institutions. As a result according to Toye (1995), the NIE is left looking for explanations of residual causes of inefficiency when market outcomes are seen to be inefficient once transactions costs have been taken into account. Nor have transactions costs, he argues, been adequately defined and measured. To invoke history and path dependence at this point is a very broad explanation which needs to be broken down as, for example, the result of class power, cultural expectations and so on. As a result Toye concludes that "no new predictions" (ibid:64) can be derived from the theory.

A further criticism, as Khan argues, is that "the critical assumption [of North] is that the choice of the best formal institutions is independent of the polity.... if the ranking of formal institutions depends on characteristics of the polity this would undermine the NIE project of attributing performance to institutions and require an analysis of the relative performance of institutions under well specified political conditions." (Khan, 1995:76). He therefore goes on to argue that the "net effects of an institution depend not just on the institution and the production technologies it coordinates but also and critically on the balance of power between the classes and groups affected by that institution i.e. on the political settlement" (ibid:77).

To sum up, the NIE focus on transaction and information costs directs our attention to deeper social structures in explaining the operation of financial arrangements, but even the broader view of North is inadequate in presenting a systematic analysis of the influence of these structures on market operation. To move beyond this point we must turn to political economy and 'old' institutionalist approaches.

2.2.3 Political Economy, 'real' markets and 'old' institutional economics

Dilley argues that "whilst the concept [of the market] has become hegemonic, it is also in crisis...the functioning of markets in western societies is now recognized as under-investigated. Quite how, or whether, the market concept should be deployed as a term of translation that applies to societies other than those of the west is yet more complex" (Dilley, 1992:1). Political economists have been at pains to point out that markets are "the hollow core at the heart of economics ...which has no adequate tradition for analysing actually existing markets" (Crow, 1998). They have particularly sought to demonstrate that participation in markets is differentiated along axes of class and also recognise the role of variables such as gender, space and time – calling the approach 'real' markets (Mackintosh, 1990; Alcantara, 1992; Harriss-White, 1999).

In contrast to the explanation that high interest rates result from information, transactions and default costs, Bhaduri's seminal contribution argues that usurious interest rates are based on the need for lenders to further accumulate land[3] (Bhaduri, 1977; Bhaduri, 1981). The political economy approach has given rise to extensive evidence that markets interlink and interlock, with powerful agents able to incorporate credit relations into the wider exchange and production relations of labour markets, trade, or asset accumulation. This has been described as "financial repression from below" by one commentator (McGregor, 1994).

In highlighting the deviation of these 'real' markets from those of 'abstract' neo-classical theory, Mackintosh directs attention to four questions in addressing the 'black box' of markets (Mackintosh, 1990). First, the terms on which people come to market, access to resources being a means through which they establish dominant positions; second, who has power and control over the terms on which markets operate; third, the social stratification of trade relationships; and finally, the way in which markets are suppressed rather than developed. Methodologies for the analysis of these 'real', or 'actually existing', markets recognise the complexity of markets in practice. Approaches to their description and analysis draw on political economy concerns with the study of power in markets and on 'old' institutionalist approaches that incorporate the work of sociologists, anthropologists and psychologists as well as that of economists.

'Old' institutionalist economics rejects the methodological individualism of neo-classical and new institutional approaches and instead "moves from general ideas concerning human agency, institutions and the evolutionary nature of economic processes to specific ideas and theories, related to specific economic institutions or types of economy. Accordingly there are multiple levels and types of analysis" (Hodgson, 1998:168). For the institutionalist, macro phenomena can be investigated by looking for patterns of behaviour that demonstrate habitual economic activity. As Hodgson points out this suggests a "great deal of imitation, inertia, lock-in and cumulative causation" (ibid:171). However, this

[3] While research has tended to suggest that such arrangements are more common in Asia than Africa, Nissanke and Aryeetey's study (1998) reports that inter-linked transactions exist in Tanzania as a means of gaining usufruct rights in land in the absence of a land market (ibid:231).

"habit based conception of human agency [does not] itself provide enough to move toward operational theory and analysis. Additional elements are required. In particular, an institutionalist would stress the need to show how specific groups of common habits are embedded in, and reinforced by, specific social institutions. In this manner institutionalism moves from the abstract to the concrete" (ibid:169). Further, the fact that this is revealed does not mean that individual agents all behave in the same way, rather the view is that patterns at the macro level can occur through micro variation rather than micro replication. Patterns at the macro level are reinforced through positive feedback loops "...the institutional*izing* function of institutions means that macro-economic order and relative stability is reinforced alongside variety and diversity at the micro-economic level" (ibid:171). Focusing the analysis on institutions is also validated by the fact that institutions are more invariant over longer periods of time, can outlast individuals, and most institutions exist before the individuals that relate to them. "We are all born into and socialized within a world of institutions. Recognizing this, institutionalists focus on the specific features of particular institutions rather than building a general and ahistorical model of the individual agent" (ibid:172).

The way in which economic processes are embedded in social institutions is familiar to economic anthropologists from the work of Polanyi. His view was that developing economies had different modes of regulation of exchange which were embedded in non-economic institutions, including those of religion and culture gave rise to the substantive tradition in economic anthropology (Polanyi, 1957). Economic sociologists have challenged the dichotomy he drew between the workings of developed and industrialised economies taking the view that economic process in industrialised economies is equally 'embedded' in social institutions (Granovetter and Swedberg, 1992). An extensive body of work in the substantive tradition has sought to identify the influence of social institutions on exchange in markets in general, as well as in the study of money and informal finance (Bohannan and Dalton, 1962; Parry and Bloch, 1989; Geertz, 1992).

An institutionalist definition of a market is "a set of social institutions in which a large number of commodity exchanges of a specific type regularly take place and to some extent are facilitated and structured by those institutions" (Hodgson, 1988:176). As Pujo has pointed out this suggests that markets can be characterised by (i) a commodity or set of commodities; (ii) an exchange process and (iii) institutions that regulate this process. On the basis of her analysis of the influence of the social institution of gender on the local rice market in Eastern Guinea, Pujo concludes that as well as markets being social institutions in themselves, they are embedded in wider social institutions that encompass but are not restricted to markets. Hence "markets should rather be defined as exchange processes (of commodities, services, money and labour) which are partially determined, regulated and perpetuated by a wide set of social institutions" (Pujo, 1996:312).

Hence, in contrast to the NIE, the approach of 'old' institutionalism leads us away from analysis of the way agents rationally respond to deficiencies in information availability and the presence of transactions costs, to an explicit focus on the range of institutions, economic and social, which pervade the operations of the market. Social institutions encompass age, ethnicity, gender, class and religion. Economic institutions can be divided into two categories (Pujo, 1996): (i) macro level legislated rules which provide a framework for economic interaction between agents and (ii) contractual rules and norms to which individual agents usually comply.

White builds on these themes to suggest that an analysis of markets needs to involve four dimensions of market power: the state, association, economic structure and socio-cultural status. These are captured within a four-fold political analysis that examines the politics of state involvement, market organisation, market structure and social embeddedness (White, 1993).

First, in relation to the politics of state involvement, White indicates that the state, apart from acting as a player in its own right in many markets, also regulates. But the influence of the state is more deep-seated than this. It is 'pervasive' and 'saturating' (p6) in the sense that the way in which state intervention influences a specific transaction derives from a myriad of sources and in invisible ways. For example, in the case of finance these influences might include the opening hours of banks, the way they are allowed to describe their products and to advertise them, the way in which interest rates are calculated, the way contracts are drawn up, and the ways in which money is used. This results in what he calls 'institutional patterning' (ibid:6) that requires investigation.

Second is the politics of market organisation. This refers to the 'internal' politics of the market in which participants are capable, through formal associations and networks, of influencing the way in which the market operates to their own advantage. Collective action by participants results in the establishment of "rules of the game or institutionalised practices" (ibid:7) through processes of co-operation and/or conflict. Third is the politics of market structure. This refers to the "relationship between market participants in the act of exchange" (ibid:8). The inter-linking and inter-locking of contracts in credit and related input and output markets due to unequal power relations are clearly aspects of market structure. Last is the politics of social embeddedness, which examines the way in which wider structures of social organisation affect market operations.

White's approach presents us with something of a bridge between the institutionalist and political economy approaches. While the domains of market structure and organisation can perhaps be regarded as the traditional domains of political economy analysis, by incorporating the dimensions of state involvement and social embeddedness the framework allows for a clear exploration of the role of institutions. Incorporating the level of state involvement in markets enables the legally institutionalised framework to be examined, that is, the way in which formal regulation is implemented. By incorporating an analysis of the influence of social embeddedness on markets we can also investigate the way in which informal rules and norms regulate market behaviour. Further, as Pujo points out in her analysis of the influence of gender in markets (Pujo, 1996), there is both an ideology to such institutions as well as a practice of the way in which an institution in fact operates, and these may diverge in reality. Such a distinction needs to be applied to the circumstances of state involvement as much as social embeddedness.

Research into informal financial arrangements in both the political economy and substantive anthropology traditions has clearly demonstrated the diversity, complexity and detail involved in their functioning. Financial 'landscapes' are understood as rooted in agro-ecological conditions, socio-economic relations and political-administrative structures (Bouman and Hospes, 1994). There are many studies of informal financial arrangements that demonstrate the intricate relationship between these arrangements and aspects of wider social institutions (Geertz, 1962; Adams and Fitchett, 1992; Aredo, 1993; Bouman and Hospes, 1994; Ardener, 1995). However, attempts to research the way in which social institutions influence the functioning of finance at the level of the 'market' itself are few. Hospes' study of the financial landscape in Ambon, Indonesia uses Giddens' actor-structure approach. As a result financial systems are viewed as "social systems sustained by actors who are not only participants of these systems but also of other social systems, such as ethnic community, an extension program, an office, a neighbourhood, a religious society, a group of entrepreneurs, that affect or somehow embed 'financial systems'" (Hospes, 1996:13). The result of such a view is that the dualistic divide between 'formal' and 'informal' needs to be overcome in order to see these institutions, be they club law, local government directives, commercial ethic or religious concerns as "regulative complexes" (ibid:10) in which financial arrangements take place.

2.2.4 Theoretical approaches: conclusion

This section has reviewed the contributions of the two main theoretical frameworks to the examination of financial markets in low-income countries. Neo-classical analysis employs a dualistic model to analyse the interaction between the formal an informal sectors and points us to the need to understand the degree of interaction between them. A strand of new institutional economics seeks to explain market segmentation through an analysis of information, transactions and default costs. However, while recognising the role that institutions can play in enabling these costs to be reduced, it is these institutions that appear also to cause market fragmentation. If, in the context of financial liberalisation, the objective is to remove market imperfections with a view to improving the efficiency of markets, it seems necessary to adopt a framework that can theorise and expose the cause of these imperfections. While the narrow NIE of Akerlof and Stiglitz therefore clearly directs our attention to the role of institutions, it lacks the tools that can enable us to describe their origins and theorise how these influence behaviour in financial markets. While the broader NIE of North recognises the role of mental models, vested interests and inertia in the operation and evolution of institutions, these are still seen as a response to information and transaction costs rather than having their origins in a wider range of social institutions that operate in social life in practice.

In contrast to new institutionalism, 'old' institutionalism permits institutions themselves to enter the core of the analysis. In particular, by incorporating an understanding of the influence of social and cultural institutions on the market, it gives us the means to begin such an investigation. Political economy approaches have directed attention to the functioning of 'real' markets and White presents a four-fold analytical framework that enables the influence of both social institutions and political economy aspects of market functioning to be explored. In particular, these approaches recognise that markets are 'regulated' by a wider array of institutions than the state. Hence the conventionally defined formal - informal divide may not be the most pervasive influence over market activity. Moreover, it is also important to point out that 'regulation' by social and cultural institutions does not only affect the 'informal' sector and stop at the door of the 'formal' financial sector. Formal financial institutions are equally subject to the influence of social and cultural institutions. This can most easily be exemplified by the way the social origins of formal sector banks may influence their 'market'; Asian owned banks in Kenya for example (Brownbridge, 1998). Another example is the way religion has influenced banking norms and practices be they Christian notions of usury, or Islamic banking practices. It is therefore important to move beyond simplistic dualistic notions of financial markets if the complexity of 'real' financial markets and the means through which they are regulated is to be adequately understood.

2.3 Microfinance organisations in the financial market

2.3.1 The emergence of microfinance organisations

Policy discussions of financial reform in the early 1990s also took note of new developments in the technology of lending to poor people (World Bank, 1989; Asian Development Bank, 1990; Callier, 1990; Germidis, Kessler et al., 1991). At this time, an increasingly rich body of detailed research into informal financial arrangements converged with insights from the new institutional economics and practical experience of lending to poor people (McGregor, 1988). This resulted in a number of key departures from earlier thinking. First, poor people can and will pay relatively high interest rates for loans and that their concern is for repeated access rather than cost. Second, poor people can and do save, and practical experience suggested that 'compulsory' savings requirements linked to loan access could provide funds for on-lending[4]. Third, group-based methods (regularly found in informal arrangements) could reduce transactions costs and had the potential to ensure that large numbers of people could be reached with the services. These developments gave rise to hopes that microfinance institutions could expand their outreach, reduce their costs as they grew in size, mobilize funds for on-lending independently of donors and hence become independently self-sustaining so providing services in the long term (Johnson and Rogaly, 1997).

The idea of building sustainable microfinance institutions further converges with financial repression thinking. The Ohio School had earlier criticised subsidised lending both

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[4] Although the capacity of poor people to save was recognised in this way, this did not lead to the availability of flexible savings services by MFOs. This is an area of current and ongoing debate, although the need for poor people to have access to savings services is increasingly recognised. See Rutherford, 1998; Rutherford, 1999; Sharif and Wood, 2001.

through the state in the form of agricultural credit schemes (and later NGOs) taking the view that this was 'undermining' the market with cheap credit (Adams, Graham et al., 1984). Along with the proponents of financial repression they argued that subsidised credit led to allocative inefficiency and that cheap credit could erode the in-built mechanisms of indigenous lending practices (Nagarajan, Meyer et al., 1995). By contrast, the Ohio School supported building financial organisations that could cover their costs and be financially self-sustaining thereby widening the market for financial services in a sustainable way (Von Pischke, 1991).

2.3.2 Microfinance organisations in the financial market

While financial sector reform policy sees subsidised credit to users as bad practice, cheap capital for the establishment of MFOs is still the norm. Using neo-classically based infant industry arguments, Hulme and Mosley argue that subsidies are valid because the benefits of developing the technology of lending to poor people involves externalities of knowledge which cannot be internalised by the organisation itself (Hulme and Mosley, 1996). However, the case made is a general theoretical one and has not been applied to specific financial markets to demonstrate the legitimacy of subsidies in a particular context. This would require the development of criteria to be used in assessing what a 'correct' level of subsidy might be which would avoid undermining already existing financial service providers (Johnson, 1998). Thus support to MFOs has been rationalised alongside thinking around liberalisation and in this sense moves towards removing the 'distortion' of subsidised credit to users (Copestake, 1996). Yet their presence and promotion remains 'distorting'.

As indicated above, the Ohio School has been a key player in the application of the NIE to financial markets and has also considered the role of MFOs in developing the rural financial market (RFM) however, they suggest that "the route to better RFM performance is not well marked" (Von Pischke, Adams et al., 1983: 12) but a well-functioning rural financial market should, according to Von Pishke, have the following characteristics. It should:

(i) mobilise rural savings as well as disburse credit;
(ii) grow to meet expanding opportunities without the need for subsidies;

(iii) expand the array of vehicles for attracting savings;
(iv) offer varied and flexible lending terms and conditions;
(v) have institutions (*sic*) which are healthy and expanding;
(vi) have active competition among formal and informal borrowers and lenders;
(vii) the costs of financial services should fall as a result of innovation;
(viii) the economically active population should have expanding access;
(ix) the capability of the RFM to take part in larger financial markets should grow.

When considering the shifting of the 'frontier' of financial development, von Pischke gives further indications as to how the broader impact of a particular project or financial organisation on financial development might be established. He asks:

(i) are project instruments innovative?
(ii) have they proved catalytic, novel or trivial?
(iii) do project instruments promote competition and reduce transaction costs? (Von Pischke, 1991)).

These are questions which have been considered by those concerned with the outreach and sustainability of MFOs (Rhyne, 1994), but while it is relatively straightforward to establish whether the instruments offered have been innovative (in the sense, for example, that they fall outside the mainstream of banking sector products) it is rather harder to measure and assess transactions costs, and methods of doing this have not been significantly developed.

At the level of the financial market, von Pischke concentrates on the question of whether projects have successfully lengthened the term structure of the market, i.e. whether they have overcome the risks of borrowing short to lend long. Since the role of a financial intermediary is to overcome the risk of using funds taken in on relatively short-term deposits and turn them into loans for much longer periods of time, the ability to successfully manage liquidity and price risks is essential. He proposes means of analysing the MFO's assets and liabilities to establish whether this is being achieved.

Additionally, two further questions are posed: first, whether injecting liquidity into tight financial markets has a greater impact on these markets than where liquidity is not a problem; second, whether the intervention has successfully developed banking habits. Von Pischke does not indicate the means of answering these last points. Indeed, it is notable that in discussing the assessment of projects on financial market development at the macro-economic and macro-financial level, he has more questions than answers about the specific approaches and indicators to be used. This framework for impact assessment on financial markets concentrates on improving their functioning as efficient allocators of resources for investment consistent with the financial repression case. Reducing transaction costs and managing risk are the main indicators of whether or not this has been achieved despite the inherent difficulties in their measurement.

By contrast, the objectives of credit projects borne of political economy analysis have often involved reducing the dependence of borrowers on moneylenders and the nexus of power relationships they represent. Political economy analyses of moneylender exploitation were a strong rationale for past state-subsidised credit provision which the financial repression thesis has attacked (McGregor, 1989). The approach to building self-sustaining MFOs, which charge interest rates to cover costs, has challenged this rationale and many credit providers have accepted the view that access rather than price is the critical factor for poor people (Otero and Rhyne, 1994).

Notwithstanding this development, an indicator that is often used to assess impact is moneylender dependence (Proshika, 1997). But such an indicator, if it is to be useful, needs to reflect the wider context of the financial market and the underlying power relations which moneylending represents, as well as the circumstances of poor people's livelihoods (McGregor, 1988; McGregor, 1994; Wood, forthcoming). Questions must be asked about whether the market niche of moneylenders is really being eroded, or simply being converted or channelled into other types of production and exchange relationship. Is it as easy as shifting dependence from the moneylender to the MFO? Evidence has been presented from Bangladesh demonstrating that households participating in MFO programmes borrow as much from informal sources (i.e. moneylenders) as other households and cross-finance their debt repayments to either source (Sinha and Matin, 1998). Bell has also questioned whether market entry by banks and co-operatives in the Indian context has really brought about the demise of moneylenders as statistics might superficially suggest (Bell, 1993). Moreover, within an environment such as Bangladesh, superficial homogeneity belies markets that have been shown to operate quite differently in different parts of the country (Crow, 1994). This raises the question as to whether the impact of more or less uniform styles of intervention, intended to affect power relationships, will indeed have equivalent impact.

To conclude, the emergence of MFOs as a development intervention intended as a lasting feature of the financial landscape involves claims about their impact at the level of the market. The sustainability school expects MFOs to expand access, mobilise savings and reduce transactions costs, while the approach arising from political economy seeks indicators for reduced moneylender dependence . Little research to date has considered whether these outcomes are happening in practice, and many MFOs that seek to achieve self-sustaining provision face the inherent contradiction that they are using subsidised capital to achieve this end.

2.4 Informal finance, risk and social safety nets

Recent developments in the analysis of poverty have explicitly recognised the role that risk and vulnerability play in poor people's livelihoods, and their strategies for dealing with it (Ellis, 2000; Wood, 2001). Analysis of informal financial mechanisms has also suggested that these can allow for risk management and coping through their roles as informal insurance and social safety nets. Platteau and Abrahams argue that the risk managing aspects of reciprocal credit, which enable the evening out of income streams with high degrees of inter-temporal and inter-personal variability, have been insufficiently addressed (Platteau and Abraham, 1987). Ardener notes that group-based financial mechanisms - such as rotating savings and credit associations (ROSCAs) - offer such opportunities (Ardener, 1995). This section briefly reviews this literature.

Platteau's work explores the insurance aspects of mutually based informal mechanisms but questions the nature of the insurance they offer (Platteau, 1997). His analysis suggests that people in developing countries do not understand insurance in the same way as people in developed countries. Insurance in developed countries is a form of 'conditional reciprocity' where the ex-ante utility of eliminating or reducing the effects of a negative event that may occur are valued and understood. In developing countries, he suggests that it is a norm of 'balanced reciprocity' that is prevalent. Balanced reciprocity can be understood through the example of mutual aid in Senegalese fishing communities, where Platteau suggests that the variability of income flows on a daily basis offers opportunities for members to benefit from each other frequently. By contrast, in agrarian societies, he suggests that there is a subtle difference between state-contingent loans (that is, where the terms of repayment may be adjusted to take account of shocks affecting either borrower or lender) and mutual aid. While state-contingent loans can assist in mitigating the effect of unexpected shocks and hence act as a risk pooling mechanism, mutual aid tends to operate in the case of need. Using Udry's data from Northern Nigeria, he argues that the state-contingent loans that Udry analyses are actually more akin to balanced reciprocity because the repayment periods under situations of favourable or unfavourable shocks are little different; hence the insurance element of these arrangements is not particularly significant. This view therefore argues that agrarian societies prefer insurance based on credit transactions because they better embody the 'balanced reciprocity' norm.

ROSCAs are an example of balanced reciprocity and Platteau goes on to explore the extent to which they involve an insurance mechanism that redistributes income among recipients. The way in which the fund is allocated in a ROSCA is important. Besley et al. argue that 'random ROSCAs' - where the fund is allocated by ballot at each meeting- are not particularly good at buffering against risk because of the unpredictability about when the fund is received. They acknowledge that members may pay for each other (through bilateral side agreements) but argue that this can only deal with the effects of idiosyncratic risks (Besley, Coate et al., 1993). Platteau suggests that ROSCAs that allow the allocation of the fund based on need, can be seen to be redistibutive if there is no compensation to other members for their patience, especially if the ROSCA is run only once. On the other hand, auction ROSCAs – where a member bids for the fund with a discount that is distributed back to the other members - are a means of allocation on the basis of need, but at a price that allows other members to be rewarded. However, he also suggests that not making deductions from the fund may be preferred because of a sense of fairness and a concern not to introduce a more calculative atmosphere.

Platteau's work is very important in attempting to delineate elements of financial intermediation and insurance. However there are a number of aspects of his argument for 'balanced reciprocity' that deserve further examination. First, the literature on micro-credit group-based lending involves a discussion of screening mechanisms whose purpose is to ensure that only those with the ability to pay join groups. As Ghatak (2000) argues, where borrowers have local information about each other, then positive assortative matching occurs and safe borrowers will end up with safe partners while risky borrowers will end up with risky partners[5]. Presumably if this is the case for micro-credit groups it is

[5] De Aghion and Gollier argue that even where local information is not available to members, peer lending can still be more efficient under certain circumstances and risky borrowers will be not be able to take advantage of safe borrowers via the interest rate (Aghion and Gollier, 2000). However this is limited to a single period model during which borrowers do accumulate information about each other's risk profile. The problem of high exit

sensible to suggest that it is also true of indigenous savings and group-based insurance systems. This means that there is *a priori* selection into ROSCAs on the basis of an individual's risk profile. Their risk profile is, by definition, a consequence of their socio-economic status. The function of groups intent on financial intermediation is therefore to exclude those who are likely to present a "bad risk" to the group and to ensure balanced reciprocity rather than redistribution. It is therefore unsurprising that only limited redistributive transfers operate *within* the framework of a ROSCA.

Second, Platteau suggests that reciprocity cannot occur within a cycle. However few ROSCAs are based on a single period. If they operate 'well' in early periods they are likely to persist and people recognise that they have to build up a track record with the ROSCA before they make claims on it in terms of need. Where members are slow to pay, or do not pay, the member may be ejected, or if a more widespread problem, it is likely to collapse. The longevity of the ROSCA may therefore be an indication of whether an adequately balanced reciprocity is in operation. But participants face uncertainty when entering into the ROSCA and may be careful about the claims they may make in any particular group, as they are also uncertain as to their ability to deliver balanced reciprocity in the group.

By focusing on ROSCAs themselves as a means to delivering insurance, Platteau's analysis overlooks the social and cultural aspects of their operation.[6] Ardener suggests that the interaction between social and economic functions is inseparable (Ardener, 1995). Velez-Ibanez argues (after Lomnitz) that ROSCAs are an important means "by which individuals can successfully counter the basic uncertainty of a marginal existence by generating methods of economic solidarity that mobilise available resources efficiently" (Velez-Ibanez, 1983:113). In research on ROSCAs in Mexico he maintains that while offering the material means to purchase gifts and to enable crucial ritual obligations to be met "[a]ccumulating money to meet such obligations selects for an increased number of social links and with that increase more access to favours" (ibid:114). The favours may be reduced prices in the marketplace, an introduction to a job, assistance in childcare or medicine for a child and so on. While a feature of these favours may indeed be balanced reciprocity, these favours may operate well beyond the bounds of the ROSCA itself. As a

rates in group lending schemes where members do not know each other (see for example Copestake, Bhalotra et al., 2001) can be a consequence of this, and apart from safe borrowers fearing losses, there is an element to which borrowers may see such processes as "unfair", despite their apparent economic efficiency.

[6] Although he has also argued that attempts to de-link credit from other social relations when replacing traditional mechanisms with formal services, can lead to efficiency losses as the means through which these mechanisms reduce information and transactions costs can increase efficiency in the context of uncertainty (Platteau and Abraham, 1987).

"cultural invention" that allows people to meet both biological and socio-cultural needs (Velez-Ibanez, 1983), he describes ROSCAs as adaptive to varied circumstances and argues that it is this adaptability that has contributed to their continued use.

To conclude, the potential for informal financial mechanisms to enable poor people to pool and diversify risk has been recognised. The potential for specific types of mechanisms - such as ROSCAs - to do this has been debated. When analysed in terms of economics their potential to provide insurance appears limited, but this approach tends to overlook the ways in which social and cultural aspects of these mechanisms operate.

2.5 Conclusions

The policy context of this study is the prevalence of financial sector reform policy in the 1990s, which sought to remove interest rate and credit controls, restructure state involvement in financial markets and remove barriers to entry, while often at the same time seeking to improve regulatory and supervisory environments. These policies have concentrated on the formal financial sector and concern about the informal financial sector tended to focus on whether it could frustrate expected policy outcomes. However, evidence suggests that the informal sector is of considerable scale and particularly important to poor people. Policy that is interested in expanding access to financial services for poor people (see, for example, DFID,1997) therefore needs to understand and consider the implications of formal financial sector reform for the informal financial sector.

The strand of the NIE that sees institutions as a substitute for missing markets has moved forward the analysis of financial transactions by highlighting the role that information and transactions costs play. This analysis has indicated the importance of a variety of institutions, including social institutions, in conveying information. While the approach of North recognises the need for actors to have a means of processing information in the presence of transactions costs, i.e. mental models, and the role of vested interests and inertia, institutions are still fundamentally seen as a response to the existence of transactions and information costs rather than having their origins in much wider range of social institutions. While directing attention to these underlying institutions, neither approach presents a systematic approach to analysing the influence of these social institutions in fragmenting the market. For this it is necessary to turn to 'real' market approaches.

'Real' market analysis builds on the insights of 'old' institutional economics and political economy and permits institutions to be the core of the analysis. Thus markets are defined as "a set of social institutions in which a large number of commodity exchanges of a specific type regularly take place and to some extent are facilitated and structured by those institutions" (Hodgson, 1988:176). This approach to market analysis suggests the importance of a range of institutions and regulative mechanisms ranging from the state, to social and economic relations of class, gender, age and ethnicity.

This review confirms the two main objectives of the study given in Chapter One. First, to develop an holistic analysis of financial markets which makes institutions core. Second, that it is necessary to examine the influence of social regulation and embeddedness in a systematic way. The next chapter proposes an approach to conceptualising this.

Chapter 3 Financial intermediation: an institutional approach

Chapter Two concluded by suggesting that institutions be made central to the analysis of real markets. This chapter therefore develops a conceptual framework for understanding financial intermediation based in an institutional approach.

Financial intermediation is the process of converting savings into loans. This requires a means through which people with excess savings and people with demand for loans can be co-ordinated: this is the role of institutions. Institutions have rules, monitoring and enforcement mechanisms. The approach taken here first discusses different forms of financial intermediary – banks, co-operatives, parastatal lenders, and informal groups – and then examines the rules, monitoring and enforcement mechanisms that enable them to operate.

The formal rules of financial intermediaries can only function with the support of informal rules moulded by underlying social, economic, political and cultural relations. Hence, a thorough analysis should also explain how financial intermediation is embedded in a broader set of social institutions. This in turn allows the differential access of socio-economic groups to be theorised and investigated.

The chapter concludes by considering the implications of this approach for the imperfect information and transactions costs analysis of financial markets. It suggests that fragmentation in the financial market can arise as a result of the nature of the financial intermediaries involved, and due to the implications this has for who is able to use particular types of intermediary.

3.1 Institutions and financial intermediation

In the broadest possible sense, people require rules of engagement to structure their interaction. Hence North describes institutions as "the rules of the game of a society, or more formally, as the humanly devised constraints that structure human interaction" (North, 1990:3). He goes on to distinguish formal and informal rules: those that become codified in common and statute laws and regulation and those that do not, with informal rules often being referred to as norms. Thus the range of institutions stretches from the rules of etiquette to criminal law. Organisations, on the other hand, are seen as the players of the game.

Before proceeding further a note on terminology is needed. The breadth of North's much used definition of institutions means that the term can be used to describe many things. Common usage can further confuse this. In the context of finance, banks are often referred to as financial institutions. For clarity the term financial intermediary is used to describe different ways in which savings are converted into loans. These intermediaries are organisations.

The term social institution has already been used in Chapter Two, and this encompasses a diverse range of rules and norms such as those that exist within forms of social organisation such as marriage, the family, and the church as well as those that operate within social relations such as those of age, gender, ethnicity and class. The main concern of this study is the way in which social relations influence behaviour so that this term is used as far as possible to refer to these rules and norms.

The first step in this approach is to recognise that financial intermediation requires a means of collaboration or collective action. Ostrom points out that theories of the firm and the state each provide a solution to the collective action problem (Ostrom, 1990). The firm operates by allowing an entrepreneur to negotiate and co-ordinate activity through contracts with a range of participants, which specify the ways in which they will act. In deciding whether or not to participate (assuming voluntary participation) each participant gives up some choices and as a result of this the entrepreneur can pay each of the agents and retain residual profits (or bear losses). The implication of this model is that the entrepreneur is motivated to organise the activity efficiently and maximise profits.

The state is another and particular solution to the collective action problem. The state by having a monopoly of the use of force can impose rules and enforce them using sanctions. Hence the state can organise a range of activities for collective benefit (or harm).

A third set of solutions is where a group of individuals organise themselves. This is the case that is the focus of Ostrom's analysis of common property resources that are not managed by the state. Indeed the collective action literature stemming from Olson (1965) concentrates on the case of collective action involving public goods that are non-excludable and non-rival in consumption because it is in these cases that there are free-rider problems. This is less the case for financial intermediation where the product is rival and excludable, and it is the theory of club goods that is relevant to this case (Cornes and Sandler, 1986).

These three main types of institution for collective action - the state, the firm[7] and club based solutions – are the basis of the forms of financial intermediary present in most contexts. Thus parastatals, banks and co-operatives are evident in most countries. However, the actual range of financial intermediaries that exists involves other types of mechanism also and it is necessary to locate these within this context of solutions to collective action. In particular, two other forms of financial intermediary are evident in many developing country contexts – see Table 3.1.

First are the range of microfinance organisations that have originated in NGOs[8]. MFOs, along with parastatal lenders are special cases of intermediation. Neither raises their funds as deposits. Parastatal lenders may on-lend funds allocated through the government budget. NGO originated MFOs usually start lending funds granted to them by donors – whether public or private - and only later in their life may they raise deposits or borrow to on-lend. Thus these funds often represent a transfer. MFOs may use group-based lending

[7] There can also be definitional confusion over the use of the term firm. Coase's focus on the firm was borne of his interest to study the predominant mode in the modern capitalist economy because the structure of firms involves resource allocation decisions that are not made via the price mechanism, i.e. a market. The market instead involves the functioning of atomistic individuals acting in their own rational self-interest. There is however some ambiguity over what it is that in fact defines the firm. In attempting to clarify this in Coase's theory, Hodgson suggests that he was referring to "any firm involving multiple agents organised together in some manner - hierarchical, co-operative, participatory or whatever - but not through the market" (Hodgson, 1999:203). Common usage of the term 'firm' refers to the modern capitalist firm and neglects other 'non-market' forms of organization. Here I will also use the term to apply to the modern capitalist firm.
[8] The term MFO is often now used to refer to many different forms of organisation offering finance to poor people, for example, credit unions. Here I distinguish between MFOs that originated in NGOs and other forms.

methods and so impose mutual liability on borrowers as a condition of lending, but this does not put them in the category of mutuals as they are not owned by their users.

The second additional category I call direct lending. This involves cases of moneylenders and reciprocal borrowing between friends and relatives. In these cases contracts are bi-lateral and therefore are not cases of collective action.

Ostrom indicates that ""Institutions" can be defined as the sets of working rules that are used to determine who is eligible to make decisions in some arena, what actions are allowed or constrained, what aggregation rules will be used, what procedures must be followed, what information must or must not be provided and what payoffs will be assigned to individuals dependent on their actions... All rules contain prescriptions that forbid, permit or require some action or outcome" (Ostrom, 1990:51). This indicates that the next step in this analysis is to consider the rules involved in these different financial intermediaries along with the procedures that are necessary to monitor conduct and enforce compliance.

Ostrom (1990) proposes that rules are nested in three levels:

1) constitutional rules affect operational activities and results through their effect in determining who is eligible and determining the specific rules to be used in crafting the set of collective choice rules that in turn affect the set of operational rules. Any group that is going to undertake collective action has to agree a constitution in which the collective action and operational rules are embedded. The constitution in turn, has a set of rules about how it can be changed.

2) collective choice rules which indirectly affect operational rules - these are the rules used in making policies and the management and adjudication of policy decisions;

3) operational rules that affect day to day decisions regarding access to resource units, monitoring and sanctions and the operational level therefore involves processes of appropriation, provision, monitoring and enforcement;

Table 3.1: Classification of financial intermediaries by form of collective action

Form of collective action	Type of financial intermediary	Description
FIRMS	Banks / NBFIs	Financial intermediaries that operate according to the theory of the firm. They can take savings and give loans independently of each other because saving and borrowing from the bank are essentially independent contracts with the bank. The bank's objective is to intermediate funds and make profits for owners / equity shareholders. Ownership may be by the state or private investors. State-owned banks fall in this category as they raise deposits from the public and operate within the same framework as privately owned banks.
CLUBS/ CO-OPERATIVES/ MUTUALS	SACCOs	Co-operatives are by definition mutually owned organisations.
	ASCAs and ROSCAs	Similar to co-operatives, they are group-based mechanisms, their main difference with SACCOs being that they are not regulated by the state.
STATE - transfer based	Parastatal lending institutions	Intermediates funds on behalf of the state - which may be a transfer of tax revenue - thus an indirect form of financial intermediation that does not involve taking deposits. Their rationale has usually involved an analysis of "market failure" in lending to particular sectors of the economy. The parastatal's remit and ability to make profit is in part a function of the incentive structure imposed upon it by the state.
NGOs Transfer based	MFOs owned by NGOs	NGO based MFOs usually intermediate funds from donors and often use group-based lending thus imposing a collective action solution on borrowers but their origins as NGOs are in a completely different type of institution, such as privately owned charities.
Direct lending i.e. does not involve collective action	Moneylenders	Private individuals, who lend their own money. These are not a collective action institution because they do not take savings. Alternatively they may be formal companies but in this case they usually operate under the theory of the firm with the objective of making profits. However their function as a financial intermediary is limited to their intermediating shareholder funds, as they do not take savings to on-lend.
	Lending to friends and relatives (reciprocal lending)	Private agreements, between friends and relatives that are bi-laterally negotiated and are therefore not collective action institutions.

These rules are accompanied by rules which determine how mechanisms for monitoring and enforcement will operate, i.e. the means through which it will be known whether the rules have been broken and how transgression will be punished. Thus the rules, monitoring and enforcement mechanisms under which financial intermediaries are constituted can be examined: Table 3.2 outlines these for the five main types of financial intermediary that have been identified.

Thus banks are a specific form of financial intermediary that operate as firms. Shareholders appoint management to monitor performance. They have specific additional legislation because they are firms who can take other people's money as deposits so that banking law is largely concerned with creating a legal framework within which to monitor and enforce this activity. Banks involve two sets of rules. First are those related to its operation as a firm, and second, banking law. Hence it is the management appointed by shareholders who design loan and savings services with the intention of making profits for the shareholders from this service. The means of monitoring and enforcement relate to saving and especially borrowing, and are the responsibility of the management of the bank but may be detailed in law also. For example, requirements to lend against collateral and the means of enforcement, involves the management of the bank in using contract law to realise collateral in the event of non-payment. These are fundamental aspects of the nature of the service that banks can offer as financial intermediaries.

In contrast to banks, the members of savings and credit co-operatives (SACCOs) are both the owners and managers of the organisation. In most countries co-operative law governs their operations and this involves the election of a management committee from the members and a range of other sub-committees to oversee operations. It is these committees that formulate the operational rules and monitor their implementation. In larger SACCOs the management committee may appoint professional and paid managers to undertake operational tasks, but responsibility for management decisions ultimately lies with the members through the structure of committees and annual general meetings. It is through these mechanisms that the members can directly influence the services that are provided.

Table 3.2: Rules, monitoring and enforcement mechanisms for different types of financial intermediary

	FIRMS	MUTUALS		
	Banks	SACCOs	ASCAs	ROSCAs
Legislated rules / Constitutional rules	Banking laws - mainly to protect depositors Company law	Co-operative law	No legislated rules. May be a written constitution but this may be more heavily based on members implicit understanding of a set of rules.	No legislated rules. May be a written constitution but this may be more heavily based on members implicit understanding of a set of rules.
Collective action rules	Made by shareholders and Board within constraints of legal framework	Made by members (who are savers) – AGM etc which can modify the constitution and monitor management	Members (savers) – election of group officials	Members (savers) – election of group officials
Operational rules	Eg lending policies made by Board and management	Made by Management committee but proscribed by law	Members may be in everyday operational rule implementation as well as officials	Members may be in everyday operational rule implementation as well as officials
Monitoring mechanisms	Externally monitored by central bank Profitability monitored by shareholders Management has responsibility for monitoring of financial services	AGMs, management committee meetings, sub-committee meetings. In larger SACCOs may have a paid manager and staff for day to day operations.	Monitoring via regular meetings at which repayments made and loans made, very easy to know when someone hasn't paid.	Monitoring in ROSCAs very easy as know when someone hasn't paid because no money for next person.
Enforcement mechanisms / Graduated sanctions	Regulations imposed by Central Bank Profits/losses to shareholders Loan enforcement backed by contract law for realisation of collateral	For late/non payment: Use of guarantors, which is related to peer pressure and reputation Attachment of shares	For late/non payment: Possibly financial penalties Seizure of assets Exclusion from group and/or social sanctions such as shame/ reputation	For late/non payment: Possibly financial penalties Seizure of assets Exclusion from group and/or social sanctions such as shame/ reputation

Table 3.2 continued

	TRANSFER BASED STATE	CHARITY	DIRECT LENDING	
	Para-statals	NGO originated MFOs	Moneylenders	Localised reciprocity
Legislated rules / Constitutional rules	Constituted by act of parliament	Constituted under charity or NGO laws	May be national law which may specify operational rules to extent of pricing (eg laws against usury) and legitimate mechanisms for enforcement Company law may be used	None
Collective action rules	None - Management appointed by government – accountability laid down in Act	Board appointed by invitation – in turn they appoint management	None (unless involves a private shareholder company)	None
Operational rules	Operational rules made by management	Operational rules made in accordance with overall vision and mission set by board. For lending – programmes designed and rules set by management	Set by moneylender – borrower enters into an agreement which may be verbal or written.	Usually set by mutual agreement between lender and borrower
Monitoring mechanisms	Monitoring by Government in accordance with Para-statal legislation Monitoring of loans by management	Monitoring of the NGO by eg Charity Commissioners Monitoring of lending is internal only	If a company has to abide by company law	Monitoring by both lender and borrower
Enforcement mechanisms / Graduated sanctions	Loan enforcement backed by contract law for realisation of collateral	May use social sanctions to discipline borrowers in group based finance systems	May use law courts to enforce contract if written; may use informal enforcement mechanisms eg seizure of items or social sanctions (such as damage to reputation)	May use law or more likely to use social sanctions

In the mutual sector the key difference between SACCOs and group-based systems is the lack of formal registration with government – in this sense they are 'informal'. Some ASCAs may operate very similarly having committee systems. ROSCAs are the simplest form of financial intermediation with mutual ownership and range from well organised and established groups to extremely loosely run systems.

The mechanisms for enforcement of payment in these informal mutually-owned intermediaries may depend on a range of other formal and informal rules and norms. For example, they may use civil law to recover debts. However it is often the case that the cost or requirements for this type of action are high and instead they may depend on a range of other types of sanction, for example, the seizure of member's assets, or informal sanctions such as shame and reputation.

Parastatal lending institutions are distinct from state-owned banks because they do not usually raise savings in the form of deposits. Instead the state uses its powers of taxation to raise funds that it can then intermediate through the lending institution. The management is appointed by the government and is accountable to government through the mechanism of its Act and whatever aspect of legislative rules that may also apply. The enforcement of repayment of loans depends on the legal framework as it does for banks.

NGO based microfinance offers financial intermediation on the basis of transfers[9], which are on lent to their target populations. With the growth of 'market driven' thinking in the NGO microfinance sector there are moves underway in many countries for MFOs to shift from the NGO sector into either the Banking sector – or in some cases to create a new regulatory category to cover MFOs. However it is most likely to be the case that these will be positioned within the banking sector operating as firms – the difference with banks will be in the nature of their capitalisation and related regulatory requirements. Some institutions within this category can be seen as in the process of transition from this category into either banks or a new category still to be determined.

Analysing financial intermediation in this way highlights two important points. First, the ownership of the intermediary and what this means for rule setting. Thus, for banks those

[9] It is the case that in some countries, Bangladesh being the prime example. NGOs have taken and on-lent savings. This is illegal with respect to constitutional rules of NGOs and banks but is allowed to happen due to regulatory forbearance and aptly demonstrates how the way in which these institutions operate is a function of the wider environment.

who own the bank set the rules and enforce them are not necessarily those who save or borrow from it. In mutuals, by contrast, the members own the intermediary and have 'voice' in setting and enforcing the rules (Hirschman, 1970). For parastatal lenders the rules are set and enforced by the state. For NGO originated MFOs, the rules are set by the owners of the NGO. In the case of direct lending the rules may be set by the lender in direct negotiation with the borrower.

Second, this analysis highlights the link between savers and borrowers in each type of intermediary. For banks, savers and borrowers may be entirely different people - in mutuals they are the same people. In MFOs saving is usually a requirement for borrowing but it is not these funds that are usually on lent. This is also the case for parastatals where the 'depositors' are usually taxpayers. In cases of direct lending it is the lender who on-lends his, or her, own funds.

These two factors together allow the origins of both price and 'non-price' features of the financial services that intermediaries offer to be recognised. Prices for bank products are set by managers, primarily in the interests of their owners; but in mutuals prices are set by members and this can be done in consideration of their own interests. Thus the way in which prices are set becomes a feature of the service. The requirements of banks for physical collateral usually arise because bankers may encounter moral hazard and they are lending their depositors funds so that they must be protected. In SACCOs or ASCAs, on the other hand, a member's loan can be secured against her own savings (or shares) and the shares of between two and four other members who act as guarantors.

This section has analysed financial intermediaries into five categories dependent on the way in which they solve the collective action problem of bringing savers and borrowers together. Institutions have rules, monitoring and enforcement mechanisms and this approach highlights the differences between them for different intermediaries. In doing so it highlights the relationships between owners and users and between savers and borrowers.

The next step of the analysis is to further explore the ways in which formal rules are supported by informal rules, norms and sanctions.

3.2 The role of formal and informal rules, norms and sanctions

The previous section indicated that formal rules such as banking and company law play a role in the operation of banks and other 'formal financial institutions'. Monitoring and enforcement of these rules usually involves organisations such as Central Banks, government agencies set up to regulate co-operatives and so on. These intermediaries are also dependent on a wider set of formal rules such as property rights, inheritance laws, and employment law, and the enforcement of these laws through the formal legal system.

But formal laws are also supported by informal norms in providing the basis of social order (DiMaggio, 1994; Platteau, 1994). Hodgson argues in his critique of transactions cost approaches, and following Durkheim that "whenever a contract exists there are factors not reducible to the intentions or agreements of individuals that have regulatory and binding functions for the contract itself... there exists a binding set of rules to which there is not explicit or detailed reference by the parties involved... [A]ll market based and contractual systems thus rely on essentially non-contractual elements - such as trust and moral norms - to function" (Hodgson, 1999: 252).

For example, the ability of shareholders and government to effectively monitor the performance of banks and parastatals is underpinned by the honesty and probity with which lending and monitoring is carried out within the intermediary: managers are expected to act in accordance with the interests of shareholders rather than customers. Further, wider social views of debt and repayment obligations can affect the approach people take to repayment of loans and may differ between types of lender. Thus even though shame may not be a mechanism through which repayment of bank loans is formally enforced, it may be a contributory factor in ensuring payment from borrowers.

Informal financial intermediaries, are only informal in the sense that their form and constitution is not laid down in legislated law but this does not mean that they don't necessarily use the formal legal system to support their operation. For example, written agreements between moneylenders and their clients may be used which are enforceable in courts of law and hence depend on a basic framework of formal property rights. Although informal systems may use the courts they also rely on a range of other norms which are enforced through sanctions such as guilt, shame and informational sanctions which may for example damage someone's reputation (Posner and Rasmusen, 1999). Such norms and sanctions are largely based in social and cultural meaning and practice, including for example moral and religious values.

The importance of such norms and sanctions based in social and cultural meaning and practice is that they have independent motivating power to cause action to take place and exist outside the domain of rationality (Elster, 1989). Hence such norms do not need external sanctions to be effective, as they can be internalised and followed even if violations are not observed or exposed. Shame, or the anticipation of it, can be a sufficient internal sanction. As a result, these play a key role in enforcing rules, but actors do not respond to them as part of an optimisation process, though they may use them to ex-post rationalise self-interest.

While the existence of such norms and sanctions has been recognised for the key role they play in enforcement, and enabling trust to be generated and malfeasance in economic relationships to be limited, one of the key questions has been how to theorise their origins with one view being that they arise from their embeddedness in social relations.

3.3 The role of social relations

As Granovetter says "[h]ow behaviour and institutions are affected by social relations is one of the classic questions of social theory" (Granovetter, 1992:53). This is the formalist – substantivist debate of anthropology (Wilk, 1996) and the agency- structure debate in sociology. Rational choice sociologists assume that agents are motivated by individual self-interest and insignificantly affected by social relations. In contrast the structuralist position tends to emphasise the embeddedness of individual action in social relations so heavily limiting the scope for independent action.

The challenge for economists who assume rational self-interest has been the question as to why agents are not more opportunistic in their interaction with others, and why trust exists.

This debate has led some economists to suggest that the existence of trust and the limitation of malfeasance can be explained through the emergence of 'generalized morality' although how this happens is unclear (Granovetter, 1992; Platteau, 1994). The view of new institutional economics that institutions arise to solve economic problems 'as if' rational self-interest is the driving factor has been criticised above (p33) as functionalist and reductionist suggesting that institutions do not have meaning beyond what they do.

The embeddedness argument, on the other hand, is that social order arises from personal relations and social networks which enable information to be conveyed and social aspects of these relationships to be built (Granovetter, 1992). But Granovetter is concerned not to simply replace one functionalist argument for another, i.e. to reject the idea of generalised morality simply to replace it with the view that social relations provide the basis of order. He suggests this can be done by recognising that the embeddedness thesis is "less sweeping than either alternative argument, since networks of social relations penetrate irregularly and in differing degrees in different sectors of economic life, thus allowing for what we already know: distrust, opportunism, and disorder are by no means absent" (ibid:62). He argues that while social relations may be a necessary condition for trust, they are not a sufficient condition and can provide the basis for malfeasance on a larger scale.

As Scott demonstrates, the social relations of class produce differential effects on rich and poor of sanctions such as reputation (Scott, 1985). In investigating the ways in which the weak resist the power of the strong to impose a symbolic order that will "create and maintain a certain view of what decent acceptable human behaviour ought to be...The implicit purpose of these competing ideologies is not just to convince but to control...To the extent that they succeed in shaping behaviour they achieve a class purpose as well" (ibid:22). He goes on to discuss the point that tales that adjure people to protect their reputation and forego their immediate material interests are not neutral "what is the cost of a bad name? The answer unfortunately depends a great deal on who you are, for the cost of a bad name hinges directly on the social and economic sanctions that can be brought into play to punish the bearer...The politics of reputation is...something of a one sided affair" (ibid:24). Hence, the rich may be insulated from the effects of a bad name because they need nothing from the poor. However, he argues that while the rich may be relatively immune to the material sanctions that the poor can impose they cannot "escape symbolic sanctions e.g. slander, gossip, character assassination...[B]ut even on this small terrain the contest is unequal" (ibid:24) as a poor person is likely to be demeaned to his face where a rich one is only slandered behind his back.

Granovetter concludes that it is necessary to investigate the role of social relations in structuring economic action and that these are a necessary component in understanding the link between macro and micro level theories. Thus a number of studies have sought to examine the embeddedness of economic action in social relations: for example, Rogaly with respect to labour hiring arrangements in West Bengal; Harriss-White with respect to grain traders in Tamil Nadu; and Pujo with respect to the influence of gender on rice trading in Guinea (Harriss-White, 1996; Pujo, 1996; Rogaly, 1997).

Power derived from social relations such as class, gender and ethnicity, is not limited to the micro level but patterns entire sets of market operations and so influences the entire economy. The rules that are set and enforced in the financial sector as much as any other will be influenced: for example, regulatory forbearance by Central Bank regulators may be the product of these relations. In commencing an analysis of the performance of financial intermediaries in practice, it is therefore necessary to identify social relations that allow power to be exercised and examine their influence on the formation and implementation of rules, monitoring and enforcement mechanisms.

3.4 Financial intermediation and market fragmentation: revisiting NIE analysis

Before proceeding to use the conceptual framework of financial intermediation and its embeddedness in social relations in the investigation of financial markets, the imperfect information and transactions costs approach is reviewed in the light of this analysis.

This suggests that the costs of lending by a financial intermediary have four components: (i) the cost of funds; (ii) transactions costs incurred in making loans; (iii) the costs of default; (iv) profit. In the light of the above analysis of different forms of financial intermediary, we can consider how these costs differ according to the form of the intermediary involved – see Table 3.3.

First, the cost of funds raised by these financial intermediaries will differ depending on the form of the intermediary. In the direct lending case of moneylenders and reciprocal lending, there are no costs associated with raising funds for on-lending as these only intermediate their own funds, therefore the cost to the moneylender is the opportunity cost of those funds in alternative uses. NGO based MFOs and parastatal lenders operate by transferring resources raised through taxes domestically, or internationally through private donations or taxpayers in other countries. Both sources of funds are costless to the institution receiving them. At a minimum the parastatal has to meet its accountability requirements to government and NGOs have to meet accountability requirements to public and private donors (Copestake, 1996). The cost of raising this money is therefore borne by taxpayers domestically or internationally and by private donors.

In mutually based organisations it is the members who determine the costs of funds. Since members are both the savers and the borrowers, they can decide on the trade-off between the return on their savings and the cost of their loans. The cost of funds, if taken to be the dividend paid, is often a residual – effectively similar to profits rather than a given cost of funds. This can change as SACCOs grow, since some offer a fixed rate of interest on deposits over and above a member's share contribution.

By contrast, banks raise their funds from savers through offering interest on deposit accounts. The deposit rates they offer to attract savings depends on the savers assessment of the risk they are incurring in making deposits. As Ndii (1994) points out, the quality of a bank's assets is private information. Although the legal regulatory framework has the responsibility to supervise and provide information, detailed and timely information may not be publicly available. To the depositor therefore, good banks are not necessarily very easy to distinguish from bad ones and the average deposit rate does not contain sufficient information about quality. In this context they therefore resort to other methods to signal the quality of their product through e.g. corporate image or investing in high visibility assets such as smart banking halls and large buildings. Thus overheads are integral to the cost of raising deposits alongside costs of complying with Central Bank regulations through reserve and related reporting requirements. Thus the cost of raising a unit of savings in each type of intermediary will differ depending on its form.

Second, the form of the intermediary affects the transactions costs of lending. The way this has been operationalised (see, for example, Nissanke and Aryeetey, 1998) has been to examine the percentage of loan amount invested in screening and monitoring of borrowers by lenders. But again the different forms of intermediation give rise to different cost profiles. The cost of screening a loan for a bank is likely to be higher than for example a moneylender. Staff are likely to be more highly paid than the moneylender and thus the cost of his time in carrying out an appraisal of the borrower is influenced by their different relationships to the employment market. Similarly, as argued above, the overhead costs that banks incur relate to the way they are accountable to shareholders through the internal monitoring mechanisms that the bank puts in place. The cost of appraising a loan is therefore a function of the need to comply with the policies and procedures of the bank. The moneylender on the other hand is accountable only to himself for his lending decisions. By contrast SACCOs are often run with volunteer labour in committees and if they do employ staff, the salaries they are likely to earn are probably closer to that to those of the public sector than the banking sector.

In the case of mutuals, the transactions costs of making a loan in terms of screening borrowers have usually been dealt with through the way in which the intermediary has actually been formed. Once someone is a member and they comply with the conditions, there is no reason to deny them a loan if funds are available. SACCOs are usually formed on the basis of common bonds (i.e. a common interest) and these are often based on income source, though can also be formed on the basis of neighbourhood. As a result the nature of the income stream is already known and for a specific borrower there is a past contribution record as well as an existing collateral in the institution based on savings (or shares).

Transaction costs also relate to collateral requirements. Thus banks and parastatals need physical collateral to secure the loan because of the moral hazard problem. They then incur costs related to the verification and charging of this collateral even if the lawyers fees and related costs are passed on to the customer. Mutual institutions by using savings and the guarantees of other members can avoid many of these costs.

Different types of intermediary deal also with the costs of default differently. In the case of SACCOs, the loan is usually entirely guaranteed by the shares of the borrower and her guarantors. Recovering the loan in the event of default therefore involves a series of book entries. By comparison a bank or parastatal trying to realise collateral will incur administration costs and legal fees in taking the process to the courts. Although many of these may be passed on to the defaulter, the loan may not be fully realised. Parastatals and moneylenders may incur similar costs.

Different intermediaries also have different approaches to the profit component. Thus the expectations of a bank's shareholders for returns to their equity are a part of their cost structure built into their pricing. On the other hand, parastatals and NGOs are often non-profit making organisations. Mutually owned organisations are essentially not seeking profit. Dividends are returns to savings rather than returns to equity investment. For moneylender the cost of funds is an opportunity cost of his own funds rather than an actual cost and profits are therefore the entire return to his investment.

While the transactions costs approach is to compare costs across governance structures and deem that those with the lowest costs are the most efficient (Hodgson, 1999:258), this analysis suggests it must at least be done very carefully as the incidence of transactions costs differs between forms of financial intermediary. Comparing these costs across different types of institution at the point at which loans are taken (as in the analysis by Nissanke and Aryeetey (Nissanke and Aryeetey, 1998)) is too narrow because it ignores the fact that these costs depend on which type of intermediary is involved. It is not therefore surprising that this analysis finds financial markets to be fragmented because this fragmentation is due to the different ways in which intermediaries solve the collective action problem of turning savings into loans.

Table 3.3: Components of transactions costs for different types of financial intermediary

Type of financial intermediary	Cost of funds: interest and transactions costs on raising funds	Screening: transactions costs of making loans	Default costs	Profits
Banks / NBFIs	Offers interest to attract deposits. Transactions costs: expenditure to signal quality of institution; cost of complying with Central Bank regulations including reserve and liquidity requirements and reporting requirements.	Bank staff professionally trained, overhead costs of visits etc high (eg use of vehicles). Cost of screening and monitoring systems used to ensure accountability to shareholders. Admin costs of charging collateral.	Administration and legal costs of pursuing defaulters. Particularly high if legal system problematic.	Dividends expected by shareholders.
SACCOs	Members decide dividend ie interest on savings usually *ex post*. Transactions costs: usually start in low cost offices, deposits often deducted at source eg payroll, crop payments etc.	At outset usually no full-time staff, allowances paid to credit committee for meetings only. As professionalise costs of staff, but usually cheaper than bank staff. Screening and collateral based on shares and income alone, no need for visits etc. Charging not necessary.	Recovery of collateral essentially a paper transfer of shares of borrower and guarantors. No legal costs incurred.	"Profits" paid as dividends – ie return to shares and hence cost of funds. No equity return.
ASCAs	Members decide dividend. All labour voluntary, overheads minimal.	Members decide at meetings. Input of time voluntary. Use own knowledge of borrower behaviour.	Recovery of assets for sale may incur costs, but admin etc low.	No equity return. Dividends on shares only ie cost of funds.
Parastatal lending institutions	Funds received from tax may be zero cost to the institution, if borrowed may be low cost as backed by government.	Staff and overhead costs usually lower than banks. Costs of screening and monitoring systems to ensure accountability. Costs of charging similar to banks.	Administration and legal costs of pursuing defaulters. Particularly high if legal system problematic.	Para-statals not usually expected to make profits. Surplus may be re-invested or returned to Treasury.
NGO originated MFOs	No cost to MFO of funds raised through charitable donation.	Staff and overhead costs usually lower than banks but outreach may raise costs. Screening and monitoring costs in part transferred to other clients through joint liability.	Costs of default transferred onto other borrowers and savings can be attached if necessary.	Non-profit making while NGOs. MFOs become profit makers when turn into banks.
Moneylenders	No cost of raising deposits, opportunity cost of own funds only	Accountable only to self for lending decisions. Minimal overheads in terms of premises. Opportunity cost of time dependent on relation to labour market.	May incur legal costs, may sell collateral if taken eg household items etc.	Profits equivalent to cost of funds. No equity based return.
Reciprocal lending	No cost of raising deposits, opportunity cost of own funds only	No overheads. Decisions made on basis of existing knowledge.	None.	None

Moreover, in Chapter Two it was noted that those who have applied the imperfect information and transactions costs approaches found that personal relations seemed to explain elements of fragmentation: the analysis developed here allows the reasons for this to be understood. It is perhaps surprising that this approach to information and transactions costs has been applied in such a narrow way to the study of financial markets when its origins in the work of Coase and Williamson focused precisely on the question of how organisations, such as firms, evolve to manage the transactions costs involved in formulating, monitoring and enforcing contracts. These alternative forms of collective action, or non-market organisation, of necessity manage transactions costs in different ways.

3.5 Conclusions

The view of financial intermediation proposed in this chapter starts by suggesting that the task of turning savings into loans is a collective action problem – although one that does not involve public goods or free-rider problems. The types of intermediary that arise, in the form of banks, mutuals and parastatals, reflect the three main ways in which this collective action is generally solved: the firm, co-operatives, and the state. In order to encompass the recent arrival of MFOs and the existence of reciprocal lending and moneylenders, I have added two categories to this core framework.

These intermediaries can be analysed in terms of the rules, monitoring and enforcement mechanisms through which they operate. This approach highlights the relationships between owners and users in the setting and enforcement of rules. In doing so it takes us beyond a neo-classical analysis of savings and loans that sees them as independent of each other, to a better understanding of the relationships between savers and borrowers in an intermediary.

This approach therefore suggests that, in order to understand how these financial intermediaries operate in any particular context it is necessary to investigate how the rules, monitoring and enforcement mechanisms are actually implemented. Moreover, it is clear that formal rules are only part of this analysis and informal norms and sanctions are critical to the creation of order and the enforcement of rules. But this in turn raises the question of how such order is created. One view is that this arises from the role of social relations in creating networks and trust. However by suggesting that social relations are important this does not necessarily require that structure is the sole determinant and that there is no scope for agency within social relations.

With this view of financial intermediation it can be proposed that social relations such as those of gender, age, ethnicity, caste, religion, and wealth can be expected to influence the ways in which economic agents relate to the rules and enforcement mechanisms of financial intermediaries. As a result we would expect to see that patterns of use are differentiated by these socio-economic characteristics. The next chapter discusses how this can be researched.

Chapter 4 Research Methodology

This chapter reviews methodologies for the investigation of real markets and describes how these have been developed in this study to analyse a particular local financial market. The key feature of a methodology for this investigation that it seeks to identify the influence of social institutions on actual procceses of exchange.

First, two approaches to investigating markets 'in practice' are reviewed: the structure-conduct-performance approach drawn from industrial economics and the commodity chain or *filiere* approach. Recent studies of real markets have combined elements of the two approaches to investigate the structure of markets and the influence of social institutions. The chapter then considers the relevance of these methodologies to the study of real financial markets. Choices of data collection techniques are then discussed before describing how the data collection and analysis was carried out.

4.1 Research methodologies for investigating real markets

This section discusses two methods that have been used in empirical research on markets. First is the structure – conduct – performance analysis of industrial economics whose approach does not directly allow for the investigation of the role of social institutions but which has contributed to the development of elements within the *filiere* or commodity chain analysis, which is then discussed. This approach has been used in the study of agricultural markets in developing countries and been adapted to allow the analysis of the embeddedness of exchange in social institutions.

Research in industrial economies has used a three-stage analysis of structure, conduct and performance (SCP). 'Structure' concerns a description of the agents and firms involved, their number, size and degree of integration, along with barriers to entry, product differentiation and the effect of policy on market structures. 'Conduct' describes how agents behave in the market, especially how they compete (on price, quality, brand and advertising for example) and is in particular concerned with the possibility of agents colluding to attain an advantage. 'Performance' examines profitability, efficiency growth and welfare (Hay and Morris, 1979). Efficiency in neo-classical economics concerns both productive and allocative efficiency. Productive efficiency is concerned with the evaluation of the marketing chain by examining prices and margins to establish whether it is lowest cost, for a given technology. Allocative efficiency concerns the role of relative prices in resource allocation.

The categories of White's four-fold political analysis of markets (see Chapter Two, p37) concerning state involvement; market organisation; market structure and social embeddedness offer some similarity with the 'structure-conduct-performance' (SCP) approach of industrial economics. Aspects of structure and conduct within SCP present clear similarities with White's concern for the politics of market organisation or the behaviour of agents in the market. For White the aspect of state policy falls under a distinct category but is also clearly relevant to an analysis of market structure and conduct since public policy is often concerned with regulating entry and behaviour. However, SCP clearly does not recognise the potential role of social embeddedness in affecting structure, conduct or performance.

This therefore suggests that an essential element in market analysis is a description of those involved in the market and an analysis of their conduct. But the analysis of performance within the SCP is more problematic. Allocative efficiency in a market system can only be achieved under perfect competition. It is because competition is imperfect that the SCP analysis was conceived; yet in the absence of perfect competition second best conditions result and cause deviations from optimality in all markets. Hence it is not clear what can be concluded from an analysis of performance (Harriss-White, 1999). Furthermore, in empirical work, as Harriss-White points out, performance has usually been reduced to an analysis of price that encounters serious empirical problems in both definition and the techniques used in analysis.

Problems in the analysis of performance also become apparent as a result of the approach to financial intermediation proposed in Chapter Three (p63). If performance is to be examined through an analysis of prices, then Section 3.4 (p showed how the costs involved in different forms of financial intermediation were a result of the form of collective action that the intermediary represents and these also determine the products it is able to offer, the mechanisms of price formation and actual prices resulting would differ accordingly. It is not therefore clear what a comparison between them would indicate about performance. Moreover, since necessary information is also conveyed through social relationships involved in enabling the financial intermediaries to function and these costs are not open to measurement then comparative analysis of costs is also problematic. Even if these costs could be calculated it would also be necessary to take account of who gained access, since once social relations are involved their incidence cannot be equal.

The *filiere* method is a particularly useful empirical approach which examines the "path the good takes and the way those goods are transformed along that path both by qualitatively distinct forms of exchange and by intervening productive and spatial changes" (Crow, 1998:6). The approach has usefully been applied to the analysis of grain markets in South Africa, Guinea and India (Bernstein, 1996; Harriss-White, 1996; Pujo, 1996) . *Filiere* analysis is helpful in its focus on exchange relationships along the supply chain but also needs to take adequate account of the context of exchange at any particular point, since exchange relationships at any stage can present a high degree of variety and complexity. Pujo's analysis goes further to combine *filiere* and SCP approaches with an analysis of the implications of gender relations for the organisation and performance of the market, so exploring the embeddedness of rice production and processing in gendered household economic relations.

For the purposes of analysing financial markets, the *filiere* concept is useful but not directly applicable. *Filiere* analysis highlights the relationships between different agents along the supply chain as a commodity is transformed. The purpose of financial markets is to transform savings into loans and hence is concerned with exchange relationships involving time-based financial obligations rather than payments and receipts for goods and services. The analysis of financial intermediation in Chapter Three resonates strongly with the *filiere* approach because it is concerned with the nature of exchange relationships in the process of this transformation. However by contrast to the supply side emphasis of the *filiere*, analysis of financial intermediation must take account of both the supply and demand for financial services at the same time, as it is their interdependence that is key.

This suggests the need for an analysis of demand or use of financial services, alongside an analysis of the supply side.

Filiere analysis further suggests the need to be aware that particular sub-sectors of the economy are characterised by particular types of financial arrangements that underlie these trading relationships (Bouman and Hospes, 1994; Harriss-White, 1996). So, for example, financial relations within the grain trade, or even in different sub-categories of grain trading e.g. rice, maize etc, may take different forms. The demand for financial services results both from trade and production relationships. Hence the determinants of agent's participation in financial markets are a result of their participation in various markets and sectors of the economy e.g. for labour, coffee, education and so on.

This review suggests that in approaching the analysis of financial markets 'in practice' it is necessary first to identify the structure of the market by looking at the agents and firms involved, their number, size and degree of integration, along with barriers to entry, product differentiation and the effect of policy on market structures. Moreover, the structure of the financial market will be influenced by production and trade relationships. Second, patterns of behaviour in the market must be examined and can be used to identify the role of underlying social relations. In the case of financial services it is necessary to analyse both the supply and demand for both deposits and loans because the process of transformation via financial intermediaries depends on this interaction. Finally, when examining performance through prices and profitability it is necessary to examine how prices are formed and what they represent.

4.2 Research design for the investigation of a real financial market

The previous section suggested the main analytical elements necessary to investigate a real financial market. This section goes further to develop a research design for this study drawing on the conceptual approach to analysing financial intermediation outlined in Chapter Three and the empirical work on real markets by Harriss-White, Crow and others (Raikes, 1993; Pujo, 1996; Crow, 1999; Harriss-White, 1999; Robson, 1999).

First, the key methodological features of research into real markets in contrast to abstract markets is their substantive concern with the identification of social institutions and the analysis of their influence on actual processes of exchange. The methodology is therefore inductive in seeking to move from the specific to the general (Wilk, 1996) rather than deductive. Moreover, it is interpretive in that it is concerned with the meaning of action in relation to a given social and cultural context.

Before proceeding to a discussion of data collection techniques, it is necessary to establish some parameters for the study. First, studies of agricultural markets benefit from being able to physically identify a commodity and market places in which transactions take place and these are usually geographically defined. In the same way it is necessary to delineate a geographical area for this study to capture an array of formal and informal financial arrangements. In order to make this manageable, this suggested the need to focus on a small town and its economic hinterland where financial service providers in the town were likely to be the providers for the area around it. The need to be able to identify a local economy and the financial relationships related to it suggested that the choice of an urban environment in a large city would be problematic due to the complexity that it was likely to produce since agent's financial transactions were much more likely to be spread across a range of financial intermediaries. The choice of location was therefore largely determined by the ability to identify a small town with an array of formal as well as informal financial service providers with an identifiable hinterland to which its services related.

Second, the above discussion has indicated that studies of markets 'in practice' must first consider their structure and may then advance to an analysis of market behaviour and performance by examining prices and returns. As an initial study of a financial market in this approach, this study will focus on market structure and behaviour and makes little attempt to analyse performance due to the inherent problems this involves, as discussed above.

Third, social relations that have been shown to be important in other market studies to date are class, caste, ethnicity, religion and gender. Studies of markets and agrarian change in South Asia have highlighted clearly the role of class - the relationship to the means of production in terms of land and labour - as an axis of social and economic differentiation and its critical role in relation to interlinked financial transactions (Bhaduri, 1977; Bhaduri, 1981). The role of class and gender in the analysis of African agrarian change has been demonstrated by Sender (1990) and Mackintosh (1989). This study did not seek to make *a priori* assumptions about which social relations might be most important. It was therefore necessary to conduct research that would enable the importance of a range of social relations to emerge by investigating various socio-economic characteristics. Land and assets have been incorporated as key variables. The position of the household in terms of labour has also been analysed using main income sources.

In addition, in an African context, social systems related to age are historically strong in their operation through age-sets, especially for men. The analysis was therefore aware that this might emerge as an important factor. It was however thought likely that age would operate as a reinforcing institution with class, wealth or other social structures. Ethnicity was unlikely to emerge as an axis of differentiation since the location of the study was geographically small and based in a relatively homogeneous ethnic context. Moreover, the area was also strongly Christian with other religious groups in a tiny minority.[10] Finally, existing literature made clear that gender relations would be a major consideration, as discussed in the next section.

4.2.1 Investigating the role of gender

Studies of real markets have paid attention to the role of gender in structuring markets (Pujo, 1996; Crow, 1998; Harriss-White, 1998; Robson, 1999). Insights from gender analysis suggest the need to look inside the household and not to treat it as a 'black box' (Guyer and Peters, 1987). This research was also concerned to ensure that the role of gender was investigated in ways that would ensure that it *could* emerge as an important institution, while making no assumption that it *would* emerge as such. It was therefore necessary to undertake the data collection in ways that would allow this. In the case of finance and money management it was particularly important to adopt data collection techniques that would enable gender differentiation to emerge. As a result husbands and wives were interviewed separately as one part of the research and this is explained further

[10] In the first round survey of 150 households, there was one Kenyan-Asian household and one Moslem household. The first declined to be interviewed in the first round survey; the second – headed by a widow – refused to be interviewed in the second round survey.

below. Since the empirical research did find that it was necessary to examine the role of gender in depth, this section explains in more depth the analytical approach used in Chapter Ten.

In developing a methodology to investigate the influence of gender on the rice market in Eastern Guinea, Pujo (1996) detects three key aspects of household level economic relations as requiring a gendered analysis: the division of labour, control over productive resources and the intra-household distribution of income. She then considers the need to examine both what she calls the "stereotypes" about these gendered institutions and actual observable behaviour in relation to them. Here the term "stereotypes" is used to mean the social and cultural norms on which gender ideologies are constructed. The framework then directs attention to investigating the influence of gender relations in these three areas. First, the influence of these three aspects as a whole on market organisation - conditions of entry; concentration of economic actors; competition and cooperation; the diffusion of market information. Second on market performance: the influence of the gender division of labour on the gendered distribution of income within the market, level of employment; the influence of gendered control of productive resources on productive efficiency, aggregate levels of production, and the gendered intra-household distribution of income. Finally, the influence of the intra-household distribution of income on the gendered distribution of income from income generating activities. This is done through the description of the rice *filiere* - the numbers and types of traders involved at different stages; the collection of price data for all stages of the *filiere* and consequent estimates of rates of return to different activities in the *filiere*.

Of course these three aspects of gendered economic relations - the division of labour, control over productive resources and the intra-household distribution of income - are interdependent. The gender division of labour is central to the way that intra-household relations are structured and can be both a cause and consequence of gendered resource control and the distribution of income within the household. The gender division of labour is both a cause and consequence of the distribution of financial rewards in the household - as the literature on intra-household bargaining suggests (Jones, 1986; Sen, 1989). But the relationship between the two is complex, being determined by both implicit economic and cultural factors as well as the potential for explicit bargaining (Johnson, 1988).

Despite these inter-linkages between analytical components of gendered economic relations, their separation is useful for examining their influence on financial transactions. The gendered control over resources, especially over productive assets and land has long been understood to be a constraint to women's participation in formal sector borrowing which requires collateral and in this way clearly influences access to services. The intra-household distribution of income and expenditure responsibilities is key as these will determine the savings that men and women have available for intermediation, their demand for loans, and the terms and conditions (in terms of price and term) on which these funds enter the market. The analysis in Chapter Ten therefore investigates the intra-household division of labour and financial responsibilities in order to determine the influence of gender.

Sender and Smith also indicate the importance of revealing the gender relations of female-only households in agricultural accumulation processes (Sender and Smith, 1990). It was an awareness of this need to capture different household structures that led to the purposeful sampling approach involving marital status that is described below. Moreover, insights from feminist research suggest that there can be important differences in relationships between and among women, and between and among men themselves resulting from age and status in the family and household (White, 1992; Robson, 1999). This will also be incorporated through analysis by age and marital status. Robson (1999:295) also suggests that gender aware research design should include the attitudes and interpretations of both male and female subjects, an aspect that was also included.

4.3 Data collection: choosing techniques

Crow concludes from his work on grain markets in Bangladesh this his findings justify an "open-ended method of investigating markets which seeks to study the whole chain of transactions between producer and consumer...the full range of forms of transactions ...and the social conditions that regulate and sustain those transactions" (Crow, 1999:149). Such an "open-ended" approach is necessary for a study that is inductive, substantive and interpretive in its methodology, and clearly requires a wide range of data. It must therefore use a similarly open approach to both qualitative and quantitative data collection techniques.

Quantitative data is necessary to establish the value of transactions involved in the market and to give perspective on the relative use of different types of services and by whom they are used. This must be done on both the supply side when surveying providers and the demand side when surveying users of services.

Data on prices and quantities, transactions costs and risks must be interpreted in relation to the terms and conditions of the product or service. Hence data on loan term, repayment, guarantees and sanctions, tied transactions and implicit aspects of contracts must be sought out (Adams, 1994). As discussed in Chapter Three, the characteristics of financial services (especially non-price factors) differ due to the nature of the intermediary offering them. At the outset then it is necessary to capture the terms and conditions of financial services.

However, it is clear that data collection techniques of a study such as this must also put qualitative data collection methods in a primary role if patterns emerging from more quantitative data are to be adequately understood. The objective is to explore the ways in which norms of behaviour based on social relations regulate the interaction of agents in the market. Chapter Three has emphasised the need to understand the role of rules, monitoring and enforcement mechanisms involved in financial intermediation and how they operate in practice, and qualitative methods are essential for this. Studies elsewhere have also found qualitative methods appropriate to the study of the way financial relationships are structured. For example, Hospes notes that, having attempted to collect information on household income and expenditure patterns as a means towards the identification of households 'credit needs' in Indonesia, "potential borrowers seem to think in terms of credit relations and their past, present and/or future dimensions rather than instant credit needs" (Hospes, 1996:120).

Further, the methodology of (old) institutional economics allows for the extensive use of qualitative research methods as a legitimate mode of enquiry in uncovering people's own explanations of their behaviour. Where the rational behaviour assumption concerns itself only with whether agents act "as if" they were behaving rationally, institutionalism allows people to explain the habits and rules that influence their behaviour (Zein-Elabdin, 1996).

Therefore it is also necessary to seek agent's explanations of their behaviour. Further, and as Harriss-White indicates, the study of power in markets is problematic as it "...cannot be measured in the way numbers and types of intermediaries, prices or quantities can...Power has to be observed mainly through the vicarious process of conversing about it" (1998: 277). She observes that such approaches involve the agent and researcher in conversations in which the agent is involved in presenting images of themselves and their businesses. Therefore this approach also requires that the researcher be continually reflexive in interpreting the meaning of data drawn from such sources.

A range of criteria and characteristics have been suggested for checking the trustworthiness of data obtained through the use of qualitative research methods (Pretty, 1994):

- **prolonged engagement** with users so that trust can build up over time;
- **observation** both of users' behaviour in relation to the services and of the context in which this happens;
- **cross-checking** (triangulation) of information by using multiple sources of information, multiple ways of finding out that information, and a number of investigators;
- **analysis of difference**: allowing a wide range of perspectives to be brought into the analysis and not necessarily seeking consensus;
- **making use of negative findings**: allowing findings which do not meet with expectations to revise the results and reformulate the expectations, rather than dismissing such findings as exceptions;
- **peer checking**: exposing analysis to colleagues not involved in the enquiry at an early stage and continuing to do so in order to expose biases or assumptions which might remain implicit;
- **checking the data with users**: after collecting information using participatory techniques, checking the interpretation with those from whom the information was collected and so establishing its credibility as representing users' actual views;
- **giving reports** explaining hypotheses about impact and the context in which they have been developed, and using direct quotations of people's personal experiences and detailed descriptions of context to substantiate these reports;
- **keeping reflexive journals**: recognising the central role of the investigators themselves, these journals are used by investigators to record information about themselves, their feelings,

and decisions; they need not be shared with others but can be used at a later stage to remember the immediate reasons for methodological decisions and interpretation of data;

- **conducting an inquiry audit**: this should be carried out by someone unconnected to the inquiry who looks at the process followed and the results to confirm that the findings are supported by the data and are internally coherent.

Harriss-White (1998:281) also reflects on the way in which it is important to take opportunities of 'disorder' as a further means of gaining insights into the way power operates. She suggests such insights can arise out of contexts in which agents reveal resentments or jealousies; reveal privileged information or give unexpected answers; and that the researcher can take the opportunities which arise as a result of developing trust and understanding with those involved; challenge agents accounts with other accounts drawn from elsewhere and support their hypotheses through observation of behaviour revealed through participation in chance events.

Given the scale and nature of the study and the number of researchers involved, it was not possible to use all of these means of data verification. Prolonged engagement, cross-checking (especially across transactions and between borrowers and lenders), observation, making use of negative findings and analysis of difference have been used. In addition, triangulation between different aspects and approaches to data collection is a strong feature.

This study has therefore sought to identify patterns of provision and use on both the supply and demand sides of the market using quantitative methods. Key patterns emerging from the analysis of the demand side data using variables such as gender, age, marital status and so on have then been investigated in greater depth using the qualitative data collected and supported by secondary anthropological material. By these means triangulation across a number of sources has been achieved.

4.4 Data collection in practice

4.4.1 Research location

The research was undertaken in the Central Province of Kenya, based in a small market town called Karatina, the Divisional Headquarters of Mathira Division, and involving two rural sub-locations in Mathira. The reasons leading to this choice of this location were as follows.

First, the nature of this study to investigate real markets suggested that the researcher's own familiarity with Kenya, where she lived and worked in the late 1980s, would be a particular asset as this meant that she already had a basic familiarity with political, economic and social structures. Second, since one of the interests of the researcher was to understand the dynamics of the involvement of microfinance organisations in the financial market, the fact that this sector was well established in Kenya was a further advantage.

The choice of location within Kenya was determined by a number of specific criteria: first, the need to bound the market geographically in a small town with an identifiable economic hinterland in order to bring a degree of consistency and convergence between supply and demand. Second, the town needed to have a number of formal financial service providers that could be studied. Many small towns may have only one bank branch, it was thought useful to choose a location with more than a single bank branch and a slightly more developed financial sector. Third, an interest in understanding the role of MFOs within the financial market suggested the need for such a town to have a number of MFOs that had been operating there for at least three years. The three-year cut off was thought useful since it invariably takes time for users to understand the nature of new types of financial service and much confusion can be caused in the early years of their presence in an area. Thus presenting the potential scenario where interviews would tend to present a lack of understanding of services available rather than an actual pattern of use.

Figure 4.1: Map of Kenya showing Karatina

Source: http://www.sas.upenn.edu/African_Studies/CIA_Maps/menu_CIA.html

A number of options in Kenya were considered and Karatina appeared to best fit these criteria. Ultimately this was particularly appropriate since the researcher's prior experience in Kenya had been of a very similar agro-ecological and socio-economic context - Embu on the other side of Mount Kenya. In retrospect, the choice of a research area where there was a detailed anthropological, sociological and political literature has also been important. The purpose of the study to capture an intermediate level of analysis that sought to explore the social embeddedness of market relations would not have been possible without this detailed background to draw from.

4.4.2 Fieldwork

The fieldwork was carried out during three visits to Kenya:

- September to December 1999: a 2-3 week rapid appraisal of production sectors and financial service providers followed by detailed investigation of the supply side of the market
- May to August 2000: investigation of demand side through a first round of household livelihood surveys, followed by individual interviews
- January to February 2001: follow up on aspects of the supply side and emerging issues, focus group discussions to establish broad understanding of gender division of labour and financial service use.

At the outset, two fieldwork visits had been planned. The rationale was to capture differences caused by seasonal activity. In practice this only occurred on a broad level since the first visit concentrated on the supply side survey and the second on the demand side survey. However, the three visits over a period of 15 months, did serve an important purpose in two ways. First, relationships with some of the respondents were developed over the period, which allowed greater insight into financial market operations. Kikuyu culture, as in many instances in Africa, is one that appreciates the development of relationships and thus returning to see informants again invariably improves the quality of data and the ability to interpret it. Second, the financial market in Karatina is very dynamic and a number of changes occurred over the 18-month period that allowed deeper insight into market dynamics. Third, the gaps between visits allowed time for analysis of data collected and design of follow up work. Indeed, it was in the period between the first and second rounds of fieldwork that the approach to financial intermediation in Chapter Three was developed. The *filiere* approach led to the recognition that members of SACCOs and ASCAs were borrowing back their own savings and that the prices they set could not be explained using transactions costs analysis.

Subsequent visits were used to explore the applicability of the approach further, and patterns emerging from the data to be followed up in greater depth.

Research assistants were recruited to assist with all stages of the research. In the first three-month period of field research, my research assistant was a Kikuyu from Nyeri who had worked for a local MFO and recently finished his Masters degree in Development Studies at Bath University. His local contacts - both personal and professional - were very helpful in facilitating interviews. He also conducted most of the key informant interviews involving participants in group-based arrangements and moneylenders.

For the first round household survey, I recruited two assistants locally - one male and one female. Both had first degrees in social sciences, one had experience as an enumerator in the national population census of 1999, and the other had undertaken some local market research. In the second round survey, which involved detailed and semi-structured interviews, a further assistant was involved. He was in his late thirties, had a degree in economics and had worked for an MFO in Nyeri for a number of years. He was recruited specifically for this interviewing stage because of his greater knowledge of the issues involved, his age and social skills. These were factors I thought would be important in ensuring high quality information from men who might otherwise be uncomfortable discussing their financial situation with a young man.

Interviews were mostly carried out in Kikuyu, and where I was the interviewer a research assistant acted as interpreter. There are clearly limitations involved in carrying out interpretive research concerned with context and meaning, through an interpreter (whether professional or not). I considered taping and translating interviews to assist in overcoming some of these problems, but the resources required to do this were not available to the study. Where these issues arise in the analysis, triangulation between multiple interviewees and with secondary sources has been carried out. Interviews were carried out in English where it was clear that the respondent was entirely comfortable in the language.

This was mainly the case with the formal financial service providers and key informants who were officials.

4.4.3 Data collection in practice: the supply side

The research started with a period of three weeks during which a rapid economic survey of the area was undertaken. During this period, as many of the formal and informal financial service providers as possible were identified. Interviews were carried out with traders in and around Karatina market, business people and other key informants such as officers in the local administration to broadly identify the core sectors of the economy and their underlying dynamics, and in particular to identify financial service provision for example in trade and business relationships. After this initial list of financial service providers had been established, a survey of the supply side of the market was undertaken.

Formal financial service providers

Formal financial service providers including microfinance organisations, parastatals, and local government were interviewed using a semi-structured survey instrument. This instrument contained two sections. A section covering general information asked questions about: organisational origins and legal structure; services available covering details of all accounts and services offered including terms and conditions; marketing strategies including information on the client base, lender preferences by sector; view of the local financial market and impact of liberalisation; nature of relationships with other financial institutions (i.e. to establish the extent to which there is layering in the market with financial institutions borrowing and lending to each other). A second part was treated as confidential information with questions about branch performance over the last 10 years in terms of the value of deposits and loans; numbers of savings and loan accounts; portfolio outstanding; performance data on the loan portfolio and costs and profitability at branch level.

Information was sought from 37 formal financial service providers through 71 interviewees, some of whom were interviewed more than once. Permission to interview branch managers of formal providers usually had to be sought from their headquarters in

Nairobi, often involving a number of visits to their offices. However this paid off because once this permission was obtained managers were extremely co-operative. Many local managers also appreciated the rare opportunity to talk about their business to an interested and informed outsider. Relationships during the research period were maintained and a number of the managers were re-interviewed about changes in the market during the final round of data collection. However, quantitative data - especially historical data – was extremely hard to obtain. This was for at least two key reasons. First, in many cases organisations did not keep or have adequately accessible data that was more than three years old. Second, data on costs and profitability in particular were invariably calculated in different ways by different organisations for the branch level. Not only was this information highly sensitive and difficult to obtain, but meaningful comparison between branches of different organisations would have required detailed financial analysis beyond the scope of this study. As a result, discussion of these aspects with bank and other officials sought broad indications of trends in quantities of funds mobilised and on-lent and profitability, and some officials were candid in their evaluation of branch financial viability.

Informal financial service providers

Since informal financial arrangements are not immediately visible in the same way as banks for example, I used a snowballing approach to interviews seeking to reveal informal financial activity. We started with traders in the open-air vegetable market and business people in the town who were interviewed to find out about the financial services they used, to identify key actors in their provision and seek introductions to those actors. The first rounds of these interviews were highly open-ended seeking to develop relationships and identify different types of financial service. As key actors were then identified, semi-structured interviews were used to collect information on the characteristics of these financial services and their use. By building open-ended relationships with informants we were able to continue conversations about financial services with them on a number of occasions over the period of the research. While some informants were not as co-operative as others, the degree of openness and co-operation of many was a surprise to the researcher who had anticipated the opposite.

The semi-structured interviews with members of groups made use of the field guide attached to Ardener's 1964 article. This seeks to identify the membership, organization, contributions, management of the fund, order of rotation, interest, deductions, sanctions and origins of groups. Where individuals were interviewed about their own group involvement they were asked about the number of groups to which they belonged, the contributions and their frequency, the reasons they joined particular groups and the group's origins.

Key informants

Apart from the 71 interviewees involved in the formal sector, 162 people were interviewed, some more than once. These comprised a wide range of people who included the following:

- members of informal financial mechanisms such as ROSCAs, ASCAs, moneylenders
- local business people both men and women
- local officials in the tea and coffee industries; lawyers and auctioneers; and officials in the administration of land boards
- senior bank officials in Nairobi
- officials in government and trade organisations such as the Ministry of Co-operative Development, Central Bank of Kenya, Kenya Bankers Association, World Council of Credit Unions, Kenya Union of Savings and Credit Co-operatives, Kenya Tea Development Association, Coffee Board of Kenya.

Some of these were interviewed using semi-structured survey questionnaires; other interviews were open-ended since they were motivated by the need to follow up specific issues such as how rules and enforcement mechanisms actually operate and what experience people had of them. All data was written up as narrative field notes even where semi-structured questionnaires had also been completed.

4.4.4 Data collection in practice: the demand side

The demand side survey was undertaken in two stages. The first round of survey work sought to establish basic data on the livelihood systems in the area. The second round survey was carried out with a sub-sample of the first round households in which adults were interviewed about their own financial service use. The two-stage approach was for two reasons. First, to build up trust between the research team and the informants before potentially sensitive questions about financial service use were broached. Second, the respondents in the second round were sampled on the basis of particular socio-economic categories in order to ensure adequate representation of what might otherwise be under-represented groups.

The first round survey involved a sample of 50 households in each of three areas giving a total of 150. These areas represent the key livelihood profiles in the locality with their selection also being guided by their degree of accessibility to Karatina town:

- Gatundu sub-location: a coffee growing area, close to the main Nairobi road some 3-5km from Karatina town. Transport to town costs Kshs10 though many people walk.
- Chehe sub-location: a tea growing area further up the slopes of Mt Kenya, some 13km from Karatina town with the bus fare to Karatina being Kshs35.
- Karatina Town: where the main livelihoods are wage employment both in local and national government offices as well as local businesses and services, and small scale business.

In these areas 50 households were randomly sampled as was pragmatic and feasible and the sampling approach therefore differed for each area. In Gatundu sub-location the Sub-Chief[11] had a household list for the whole sub-location, which he updated for this research. Some problems arose in that the household list, even when updated, had some 100 households less than the 1999 Census indicated. He revised the list again but it remained about 60 short of the census number.

Chehe in the tea zone was a large sub-location with some 1500 households according to the Census. Six of the 13 sub-areas were randomly selected although this was not on the

[11] Sub-chiefs are local administration officials under the Office of the President responsible for a sub-location, a Chief is responsible for a Location.

basis of probability proportional to size as the household numbers in each of the sub-areas were not available. Then household lists were drawn up with the help of the Sub-Chief by walking through the sub-areas.

In Karatina Town household lists were not available, so three sub-areas out of seven in the town were sampled using probability proportional to size based on approximations of household numbers given by the Chief. Then I started with the intention of using a random walk approach in each of these areas. However, in practice such an approach was hard to implement due to the way housing estates are constructed with blocks of houses making it hard to follow a route in a particular direction. Of the three areas in the town – one estate called Muthua had approximately 600 houses; another in Blue Valley approximately 200 houses; and the market centre district approximately 140 houses. In Muthua I therefore divided the estate into blocks, estimated the number of houses in each block and selected one of four blocks again on the basis of probability proportional to size. I then counted all the houses in this block, and took every n^{th} house. In the other two areas, Blue Valley and the Market Centre, we simply counted all the houses and took every n^{th} one – simply using the next house as a replacement if contact could not be made or the householder was not willing to be interviewed. The main concern about the town sample is that it did not deliver a very diverse sample as the areas sampled tended to house neither the poorest or wealthiest households.

Data collected in this first round comprised information on household composition, age, education, farming activities and land holdings, business and employment, housing and asset holdings, and gave initial indications of financial service use. This enabled a livelihood profile for each sub-location to be established and confirmed the limitations of asking one person in the household about the financial service use of others.

The second round survey comprised detailed interviews with individuals about their own financial service use. This was done with a sub-sample of individuals in first round households. The rationale here was two-fold. First, splitting the interviews in this way would make the interviews more manageable at perhaps an hour each rather than one long interview. Second, I wished to interview all adults in the household identified in the first round and not make assumptions about financial service use at the household level. This meant that husbands and wives were not expected to be mutually informed about each other's finances, and also allowed the potential for gendered differences to emerge. I started with the idea of interviewing all adults in the household including young men and women who had not yet left home. This proved difficult since young women often proved very reluctant, and young men were often not available. These interviews were therefore not continued, however the analysis does suggest the position of young men in financial markets is worthy of further exploration.

In sampling households to follow up in the second round, the concern was to ensure that a range of financial service users was represented and hence sampling was undertaken within purposefully defined categories. The initial plan was that the household profile would determine the categories, but these did not emerge clearly from the initial analysis. The approach adopted was therefore to use the research hypotheses to generate the categories for selection. The hypothesis of social embeddedness suggested that gender and age would be important parameters and the initial round also suggested that it was important to capture households of varied marital status, especially female-headed households. Table 4.1 guided the selection of households.

Table 4.1: Planned categories for second-round survey sampling

Household Characteristics	Gatundu (Coffee growing area)	Chehe (Tea growing area)	Karatina Town (Employment/ Enterprise)	Total house-holds	Total indiv-iduals
Man/Woman – Old (Old = >39)	4	4	4	12	24
Man/Woman – Young (Young = <39)	4	4	4	12	24
Male Only HHH	4	4	4	12	12
Female Only HHH	4	4	4	12	12
Total	16	16	16	48	72

It is important to explain this decision. Had I taken a random sub-sample of households from the first round for more detailed interview some types of households would have been in very small numbers, if represented at all. Table 4.2 gives the numbers of households by category in the first round. This would have made it hard to gain sufficient data about the ways in which the financial service use of individuals in these types of household differed. While cell numbers of four are small, this gives representation of twelve households across the three areas. The research therefore faced the trade-off between breadth and depth in the face of limited research resources. Since the overall objective was a detailed qualitative understanding of financial service use decisions, the objective of depth of explanation was prioritised. Since data is not available to weight these categories for the whole sample the data collected from this sub-sample is not randomly representative of the whole population.

Marital status of households was the first parameter of categorisation. Since married households are a much higher proportion of the overall sample, this category was subdivided by age. The hypothesised influence of age is particularly through attitudes to land sub-division. The sample was divided on the basis of the median age (39) of male household heads in married households across the whole sample. Interviewing both women and men in married households and ensuring both male and female only households were represented, would then capture gender dimensions.

Table 4.2: Distribution of first round households by marital status, gender and age

Household Characteristics	Gatundu (Coffee growing area)	Chehe (Tea growing area)	Karatina Town (Employment/ Enterprise)
Man/Woman – Old (Old = >39)	14	25	10
Man/Woman – Young (Young = <39)	21	11	16
Male Only HHH	3	3	4
Female Only HHH	12	11	18
Total	50	50	50

Interviewing female-headed households in Gatundu met with dismal success due to two factors. First, four were old women who were not able to answer the questions. Second, five women refused. Refusals were partly related to concerns that the research team were somehow linked to devil worshippers, about whom there has been controversy in Kenya in recent years, and with whom Europeans are often linked.[12] This problem also converged with some local political issues that affected the research. I had unknowingly selected two research assistants whose families were from one end of the same sub-location and it

[12] Devil worshippers are rumoured to leave money for people to pick up and then follow those who have picked it up and take their children for human sacrifices. Europeans who are generally perceived to have money may therefore be linked to devil worship.

emerged that there were political differences between this area and other parts of the sub-location.[13]

In-depth interviews on financial service use followed a questionnaire which explored: recent changes in livelihood circumstances; details of the individuals income; household financial decision making; household expenditure; individual asset holding and decision making; savings services used in the last two years with detailed information on each account used; loans taken in the past five years with detailed information on each loan taken. For each of these interviews narrative field notes were also written up after the interview to give a fuller version of information and link together different aspects of the interview.

Table 4.3: Interviews actually conducted in the second round survey

Household Characteristics	**Gatundu (Coffee growing area)**	**Chehe (Tea growing area)**	**Karatina Town (Employment/ Enterprise)**	**Total House-holds**	**Total Indiv-iduals**
Man/Woman – Old (Old = >39)	4	4	4	12	24
Man/Woman – Young (Young = <39)	4	4	4	12	24
Male Only HHH	3[1]	2[2]	4	9	9
Female Only HHH	3[3]	4	4	11	11
Total Households	14	14	16	44	68

Notes:
1 – there were only three households in this sub-category in the first round sample
2 – four in original sample but one got married and wife of another returned between first and second round interviews
3 – 12 households in original sample but many old women refused to be interviewed and others were inappropriate interviewees (see text)

In this round of interviews the older male research assistant interviewed men and I interviewed women with the assistance of a female interpreter. It became clear that this

[13] One clear political issue was concerned with the local coffee co-operative. The Co-operative consists of three factories. There was an ongoing dispute about the Chairman - who was from the factory at the end of the sub-location that refused to participate – with the challenge coming from the two other factories. This appeared to be symptomatic of deeper social divisions.

did produce good results, as women were often very forthcoming about issues in household financial management and the knowledge their husbands had of their financial transactions and vice versa. Male interviewees were, for example, forthcoming early on in interviews about the existence of second wives.

Interviews were carried out in private and respondents were assured of the confidentiality of their responses. It was particularly important to assure married women respondents that their responses would not be discussed with their husbands. Explanations to men for needing to interview their wives included the fact that women were involved in groups and hence had a legitimate domain to discuss about which they knew little. A point learnt during this work was that it was important to first gain the approval of the male household head in married households before the woman was interviewed. In a couple of cases in households where the man was rarely available - usually because he worked out of town - the woman had been interviewed in the first round survey and willingly participated in the second round. However when her husband was approached it was found that he knew nothing of the first round survey refused the interview and was annoyed that she had participated in the research.

The final component of data collection involved focus group discussions to explore the gendered division of labour, control of income and assets and expenditure responsibilities. These focus groups also involved discussions about gendered financial service use that were emerging from earlier stages of data collection and analysis. It was planned to hold twelve focus group discussions with men and women, 'better-off' and 'less well-off' in each of the three locations. Twelve focus groups were conducted but we were unable to carry out such a discussion with 'better-off' men in town simply because of the difficulty of getting men in town together. Groups contained a minimum of three and a maximum of eight participants. We also found it useful to sub-divide the 'less well off' men in town into a group of married men and unmarried men. The 'better-off' and 'less well-off' categories were loosely constructed with the broad distinction being that the 'better-off' had more than 200 coffee trees or more than an acre of land, while the less well-off had less than 200 coffee trees or less than an acre of land.

4.4.5 Data analysis

Quantitative data from the supply side analysis has been aggregated to give perspective on the value of funds managed by different forms of intermediary. The difficulties of collecting historical data have made it difficult to analyse trends. However, it has been possible to compare and contrast these patterns on the supply side with the reports of users from the demand side. Demand side data on frequency of access and the value of loans and deposits has been analysed using cross-tabulations and significance testing.

Given the approach to the demand side survey described above, it is important to discuss the limitations this imposes on the analysis of the data. Given that the underlying data cannot be weighted in relation to the overall population, it has been necessary to analyse it un-weighted, using cross-tabulations and logistic regressions. The approach taken has therefore been to seek out patterns in the data that appear strong enough to require further analysis. Logistic regressions have been used to further confirm these patterns. Logistic regressions cannot compensate for the purposeful nature of the selection criteria, but the model is able to examine the relative importance of different socio-economic factors in affecting the likelihood that a service is used. However, the small numbers of observations in some categories of financial service has also limited the use of this approach.

In Chapters Six and Seven patterns drawn from the broad based analysis on the supply and demand sides of the market are described. These patterns are then explored in more depth in Chapters Eight, Nine and Ten. These Chapters use the wide range of qualitative data[14] collected to explore the reasons for the patterns identified. It is therefore this combination of statistical and qualitative approaches supported by secondary sources that seeks to make the analysis robust.

Some further aspects of the data collection and its analysis should be mentioned. First, respondents were asked to enumerate the savings services that they had used in the last two years and the loans that they had taken in the last five years. Since the research was seeking to examine and understand patterns of use rather than simply the static situation at

[14] Qualitative interviews are referenced differently in the text depending on their origin. Second-round survey respondents are referred to by their household number and whether the respondent was the husband(H), wife (W), female headed (FHHH) or male only (MO), and references therefore for example take the form HH 90W. Other qualitative interviews use a code for the respondent and the interview number eg. EJN,142.

the time of the research use over a period was more likely to offer greater insight. The difference in time periods was arbitrary but born of the view that loans were likely to be less frequent events than saving which was more likely to be ongoing.

Second, in interviewing both men and women in the same households the analysis faced dilemmas about how to analyse the data in relation to indicators of expenditure and assets. Both men and women were asked to estimate household expenditure but these estimates diverged, in some cases quite significantly. Individual's estimates of household expenditure have therefore been used as a poverty indicator for the individual concerned. Since gender aware research is concerned about differentiation within the household it would be contradictory to then attempt some means of establishing a household based indicator that would be entirely arbitrary – for example, averaging household expenditure as reported by husband and wife. These differences and the reasons for them are discussed in Chapter Ten.

Similarly in the case of household asset data and land holdings, this data has been taken from the first round survey and gender distinctions about the nature of access and control have not been made in the analysis in Chapter Seven. However, the gender issues in relation to land are discussed in Chapter Eight.

A limitation of the study is that it does not adequately capture financial transactions of small and medium scale businesses in Karatina. While at the outset it was planned to include the business sector, the resources of the research ultimately could not accommodate this. It is likely that it is this sector that in the main has been borrowing from the banks in Karatina and would help explain the disjuncture between the supply and demand side data relating to bank borrowing.

4.5 Conclusions

The research methodology for this investigation into the embeddedness of a real financial market has drawn from SCP analysis and the growing literature on commodity chain analysis for agricultural markets and sought to develop its methods for use in the context of financial intermediation. This requires a substantivist, interpretive and inductive methodology that seeks to identify the influence of social relations, is concerned with their context and meaning, and seeks to establish detailed anlaysis from which higher order generalisations may subsequently be drawn.

While a range of detailed studies of financial mechanisms have been carried out, the challenge for this study is to develop an holistic understanding of their role and interaction at the level of the market. In order to analyse the social embeddedness of this market in a systematically, it is necessary to describe and analyse the differential use of financial services by different socio-economic groups. In seeking to take this more holistic approach to a financial market, the data collection methods developed have also been innovative since other studies of this nature have not been identified. The study has combined quantitative and qualitative methods and seeks to achieve rigour through their analytical interaction.

Data collection methods focused on the supply and demand sides of the market. Geographical focus allowed formal financial providers to be identified and interviewed. On the demand side, the approach has been to survey users through a combination of random and purposeful sampling. This combination was arrived at through the need to obtain depth within the limits of the resources available, while obtaining coverage of key variables hypothesised by the research to be important.

Interviews of key informants were qualitative, and second-round interviews on the demand side were also recorded in narrative form allowing them to be analysed qualitatively also. This allowed informants to explain their choices and detailed descriptions of behaviour to be compiled. Analysis of this data has been used to understand the detailed ways in which users interact with the rules, monitoring and enforcement mechanisms of intermediaries.

This study has sought to balance the combined need for quantitative evidence that would reveal patterns of use and provision, and give explanation of these patterns, within the limits of available resources. Inevitably more data could have been collected but the challenge for any researcher is the careful use of the data with a keen awareness of the limitations of the process of its collection.

Chapter 5 Mathira in Context

While much has been written on both the Kenyan economy and politics, and on Kikuyu history and anthropology, the purpose here is to provide this context in a way that is most appropriate to the exploration of real financial markets in Mathira. Chapter Four indicated that research into real markets was concerned with the identification of the influence of social relations such as gender, age, ethnicity and class on exchange processes. This chapter therefore seeks to identify patterns of power and social relations that have been pervasive and persistent in influencing resource allocation and which can therefore be expected to structure current patterns of access and use.

The chapter starts by locating Mathira and its people in the historical and anthropological context of the Kikuyu. This identifies two specific features of Kikuyu social relations - lineage and age – which are particularly important to structuring access to land and hence engagement in financial markets through its use as collateral. Intra-household gender relations surrounding the division of labour and control over income are also briefly reviewed as background to a detailed discussion in Chapter Ten. The importance of the relationship between lineage and land is underlined by the role of Mau Mau in the achievement of independence. However, an account of the underlying dynamics of Mau Mau exposes its moral economy. This leads to a broader discussion of the way in which social relations influence access to resources, and political power is legitimised through self-help activities at the local level – a feature that is also reflected in national political processes. This provides the context for the discussion of mutuals as a form of self-help activity in subsequent chapters.

The chapter then presents a profile of households and livelihoods in Mathira based on data collected during the first round survey. This examines household composition, land holdings, main income sources, consumption poverty and household assets. It demonstrates the prevalence of land access via lineage relationships and dependence on tea and coffee as cash crops in rural area. Incomes from enterprise and employment dominate for those who live in Karatina Town.

The third section then moves on to place Mathira, and the Kikuyu people, in the broader context of Kenya's economy and politics in the 1990s. The relationship between politics, ethnicity and class in Kenya has been debated at length in the literature but the persistence of forms of patron-client relations has become even more apparent with the shift to multi-party politics in the 1990s. An investigation of real financial markets in Mathira would be incomplete without a discussion of this political economy. The Kikuyu were central to the achievement of independence. The political settlement that this produced under the presidency of Kenyatta was favourable to Kikuyu access to markets and resources. The Moi era has been characterised by attempts to restructure the basis of political and economic power away from the Kikuyu.

This discussion of the dynamics of the wider political economy is essential to an understanding of the current patterns of market access both for the Kikuyu in relation to the economy as a whole, and in particular in the financial sector. The chapter therefore reviews the performance of the banking sector and the AFC in this light. Finally, given the importance of tea and coffee to livelihoods in Mathira, the structure of these industries and recent changes are examined.

5.1 Mathira: local economy and society in historical perspective

5.1.1 Land and people

The Kikuyu have historically inhabited the area between the Mt Kenya and the Nyandarua Range (Aberdares), extending southward towards the Ngong Hills just south of Nairobi. Karatina town and Mathira Division are in the northern part of Kikuyuland at an altitude of between 1200 and 2000m on the south-western slopes of Mt Kenya. The agro-ecology of this area with its deep red volcanic soils and plentiful rainfall means that agricultural production potential is strong. However the terrain is characterised by ridges and valleys, which has meant that the potential for large-scale mechanised agriculture is limited and hoe cultivation on smallholdings has remained dominant.

Muriuki describes the migration and settlement of groups that became the Kikuyu as a process of absorption of groups such as the Maasai (largely through intermarriage) and Athi, which were only stopped by the arrival of the British (Muriuki, 1974). He suggests that by the end of the nineteenth century the people in Mathira had almost become a sub-tribe with a particularly distinctive dialect that set them apart.

The Kikuyu gained land from the Athi through land transactions. These required a process of mutual adoption into their kin groups and made the transaction part of ongoing relationships, likened by Muriuki to those of marriage. An individual could also acquire land through clearing forest and establishing it as belonging to a small group of closely related people. Their descendents came to see this as ancestral land to which they were both economically and religiously attached through the pouring of libations and offerings to the ancestors (Muriuki, 1974). This pattern led to the basic *mbari* or sub-clan system of land holding and its importance as a social institution. Principles of access in this system were that *mbari* members had rights to use the land as long as no one else had claimed it and the *mbari* head was informed. When land was purchased by an individual from another mbari, it could not be sold on to another buyer without first referring back to the original *mbari* who would first make efforts to redeem it.

Individuals would encourage warriors and young men who were landless to settle on their land as *ahoi* (tenants) in order to gain both physical protection for the *mbari* and its members since it could be located at a distance from other *mbari* and/or be at the frontier of the settled area, in both cases being potentially vulnerable to raiding by neighbouring tribes. At the same time the *mbari* would gain labour to assist in the arduous work of tree clearing to extend the cultivated area. Lonsdale argues that the collective effort of forest clearing was central to the debate about the relationship between individual and community (Lonsdale, 1992) and that through these means there was complementarity between rich and poor, as the rich prospered further by giving opportunity to the poor. Tenancy was a route for many men to buy land eventually through hard work, and all sought to achieve this (Leakey, 1956). But this process of expansion was stopped by the arrival of the British and the *ahoi* suffered most through the land shortage that resulted.

Muriuki describes the social and political structure of the Kikuyu at the end of the nineteenth century as being "patriarchal, uncentralised and highly egalitarian" (Muriuki, 1974:110). This was a function of two key social institutions. First the *mbari* (sub-clan) as the basic family structure under the headship of a father. All *mbari* traced their ancestors to one of the ten Kikuyu clans mythically founded by the daughters of Gikuyu and his wife Mumbi, giving the Kikuyu a segmentary lineage structure with no centralized authority. However, clans were a more or less effective means of organising depending in part on their size and hence alliances within and between them were mutable and manipulable. As a result, according to Lonsdale "big men controlled the politics of kinship by keeping decisions at the lowest level of alliance that could guarantee effective action...Kikuyu politics was much smaller than ethnicity" (Lonsdale, 1992:341).

The second social institution of importance is *riika* or age-sets, which were the basis of recruiting and initiating men into groups that cut across lineage or territorial groupings for political purposes. Muriuki suggests it was this system that bound the Kikuyu together as a single people although it no longer operates (Muriuki, 1974). *Riika* refers to four groups according to age and status: children; young initiates; warriors and elders. Initiation through circumcision led to membership of age-sets given specific names, of which a man remained a member throughout his life. Seniority was a result of the promotion of the group, though appointment as elders also depended on personal character. *Riika* involved women as well as men though the initiation of women was more regular than that of men. The initiation process had a key role in educating children regarding traditions, folklore, adult behaviour, taboos and sex. Members of an age-set demanded co-operation, mutual help and solidarity. The immediate purpose of initiating young men was to create warriors but they also had responsibilities for carrying out community wide public functions such as policing markets and arresting criminals. However, according to Lonsdale, these did not provide a basis for strong solidarity once men got married (Lonsdale, 1992). For women initiates the purpose was to learn proper behaviour with the senior women instructing the junior women. Behaviour codes were strict and fines could be imposed resulting in ostracism in extreme cases.

5.1.2 Gender and intra-household economic relations

Anthropological sources suggest that in Kikuyu agrarian society it was the responsibility of men to allocate land to their wives but men and women exercised full control in terms of managing their plots and control over the product that resulted. The grain would also be stored in separate granaries over which they each had complete control (Fisher, 1954). For a woman, Fisher reports that this granary was an extremely private domain and no-one was allowed to take food without their permission. It was also a place in which a woman could "…"hide" treasured possessions which she wishes to conceal from her husband or other members of the family … it is not the custom for a man to know about his wife's food stores" (paragraph 875). The woman's grain was used for food, while the man's produce was used to provide for visitors and the family when the wife's granary ran low. Moreover, provided the wife had sufficient food to provide for her family she could sell the surplus although she had no right to sell the whole crop. The proceeds from such sales were under her own control also and would usually be spent on, for example, household utensils, implements and seed, clothes, and gifts. The proceeds from the sale of the husband's food crops were generally used for the running expenses of the household.

Kershaw suggests from her research in the 1950s and 1960s that men and women's decision-making roles had changed since the "traditional" period and notes differences depending on the household's position in a land-based stratification. Women in households with the smallest plots, or with no land, she saw as having gained decision-making power. This was because both husband and wife had the responsibility of providing food for the family in a situation of land scarcity and where the woman's labour therefore made a significant difference to the household's survival. In instances where the husband migrated for work, Kershaw argues that the wife would have even greater influence, but notes that this power may not necessarily have been seen as legitimate and may have created problems as a result. She describes a middle land stratum as those who had adequate land to grow basic food, and suggests that in this stratum the traditional decision making roles remained more intact. If the woman went to earn money then this was seen as "her crop" and the earnings were fully under her control. This in turn gave her a degree of independence. Husbands in this group were more likely to have retained greater traditional social and ritual roles in the *mbari* (sub-clan). In the case of households which had more than seven acres of land, Kershaw suggests that women lost some of their direct independence to men, but gained in indirect influence and control through their involvement in other affairs of the community, while her husband was likely to have gained in influence in newly emerging social, ritual and political institutions. (Kershaw, 1975:190-1).

Stamp argues that the changes underway in the 1950s and 1960s, while they may have reduced the responsibility of husbands to wives, also led to greater independence for women from their husband's control (Stamp, 1986). The absenteeism of men who were away working led to greater responsibility for women to provide for their families. As one of her informants commented of her husband who was away working: "He helps us by paying school fees for the children and buying clothes for us and pocket money for what we need in the house. [But] he keeps the money...and I never know what he earns, and I dare not ask if he provides us with enough" (ibid:27). However this also meant that women had greater control over their own income and affairs, and men would not ask about their wives earnings either. Clark reports an instance where she heard a woman who had refused to obey her husband say: ""Who are you to tell me what to do? I have money"" (Clark, 1980:358).

In summary, while men controlled the allocation of land to women, their role in food provision has historically given them a domain in which they control some subsistence resources. With the increased absence of men due to land pressure and migration, women have assumed increasing responsibility for household provision and at the same time extended this control to sources of cash income. These themes are explored further in Chapter Ten.

5.1.3 The origins and significance of Mau Mau

The arrival of the British in the late 19th century and the appropriation by them of land for settlement, ultimately led to the Kikuyu-led Mau Mau uprising in the 1950s that contributed to the achievement of independence. Land was central to the course of events but was not the sole factor. Kanogo identifies two periods of white settlement (Kanogo, 1987). In the first of these leading up to the First World War land was plentiful and squatters who worked on settler farms - many but not all of whom were Kikuyu –were able to cultivate land and keep livestock themselves. Indeed, many Kikuyu understood this as a process of tenancy similar to being *ahoi* that would eventually result in them establishing their own rights to this land. However, during the second phase - in the inter-war period - not only did settler numbers expand but the pressure was on them to become more productive and reduce the cost of the colony to the British government. Conditions for squatters became much harsher with the introduction of labour controls and the banning of livestock for squatters at the end of the Second World War. This led to many squatters attempting to return to the Reserves. But land pressure in the Reserves had also risen with population growth and the alienation of land by the British. After years of absence, the squatters had difficulty in gaining access to land, in part because subsidiary categories of land claims such as *ahoi* became devalued and *mbari* claims dominated (Throup, 1988). This process led to resentment of the chiefs and headmen who were loyal to the British. Moreover, many of those who lost out in the process migrated towards Nairobi and as destitute vagrants were mobilised by Union activists in militant opposition to the government, later becoming part of the nationalist campaign (Throup, 1988).

Farmers in the reserves were also part of the picture. During the depression and war years, when the colonial government put pressure for Kenya colony to be self financing, production by African producers was encouraged and unleashed what Throup calls African "proto-capitalists" (Throup, 1988: 239). But after the war, the government saw these as a threat to colonial rule, and the settlers saw them as a threat to their own positions since they could produce cash crops (such as wattle and coffee) with less state support than many settlers. Loyalist chiefs also saw this as a threat since their economic superiority depended on their continued domination of Local Native Councils with the opportunities for clientelism that this offered, and these economic advances among African farmers therefore presented the potential for the development of alternative economic elites. One of the responses of the colonial government concerned about the ecological consequences of rising land pressure was to introduce terracing campaigns involving compulsory labour. This was one factor that led to the Peasant's Revolt in Murang'a in 1947 and another contributory factor to Mau Mau.

While there is much debate about the precise origins of Mau Mau, it is important to recognise that it can be interpreted as an intra-Kikuyu conflict as much as having elements of an anti-colonial one (Sorrenson, 1967; Muriuki, 1974). The main division was between those loyal to the British, whose interests were to protect the power base that this patronage allowed them, and those who felt excluded from land and resources. Throup's analysis suggests that there were two distinct groups here also. First an alternative African elite that wanted to displace the loyalists and gain access to state resources, and second the bulk of the peasants, in whose interests the alternative elite did not operate (Throup, 1988).

Lonsdale argues that these dominant materialist accounts of Mau Mau have been externally constructed views and take insufficient account of Mau Mau's internal dynamics (Lonsdale, 1992). He argues that for the Kikuyu, public authority came from private achievement - wealth was equated with leadership – but private ambition should also serve the public good (ibid:337). Those who wanted to progress without effort were scorned: "male mastery in the home proved ability to manage public affairs ...women's roles in cultivating wealth and reproducing labour earned them civic virtue too" (ibid:326). All were regarded as having the potential to become virtuous. Poverty was seen as delinquent and charity was scorned. Rather, Lonsdale suggests that reciprocity between the rich themselves was in fact lauded.

The purpose of Mau Mau, according to Lonsdale, was "to regain the stolen land and to become adult" or "self mastery through land" (ibid:326). Thus the purpose of Mau Mau directly linked these private and public domains. But in doing so this raised the complex issue of whether moral maturity alone offered sufficient legitimacy to share in the gains of collective action. Those who were poor and did not have access to land turned to age-sets, but by then neither of the key concepts of community - *mbari* or *riika* - could ensure adult rights for all. Due to the heterogeneous origins of the Kikuyu, whom "toil and argument forged into what they and others recognized to be a people" (ibid:333), Lonsdale argues that the material change that Colonialism precipitated provoked a public moral debate about the relationship between work and achievement that was never fully resolved.

These last two sections highlight a number of points relevant to this study. First, the Kikuyu themselves were not homogeneous as an ethnic group and as a result solidarity tends to operate among those whose interests converge and could be turned into action. Second, that hard work was praised and while opportunities might be given to the poor e.g. through tenancy relationships, mechanisms for direct redistribution were not promoted. As a result, the rich entered into reciprocal relations with their peers rather than with the less fortunate.

Third, the importance of land is apparent to both the social structure of the *mbari* and to politics more broadly. For the Kikuyu, land was a source of wealth through the expansion of the area under cultivation but required scarce labour. This was therefore achieved through patronage relationships with tenants who would, in turn, gain their own land. However, once the land frontier was closed, the claims of tenants were eroded and access to new circuits of accumulation was more pressing. Hence divisions between the alternative elite and loyalists focused on access to the resources of the state.[15]

Yet Lonsdale's exploration of the deeper meaning of Mau Mau suggests that while individual accumulation was one route to public power, there was a complex relationship between this individual wealth and the social basis on which claims to civic virtue and hence political power could be made. The next section discusses this further.

5.1.4 Social relations and the politics of self-help in Kenya

The complexity of the relationship between social identity and material wealth has led analysts such as Hyden to propose the existence of the "economy of affection" which "denotes networks of support, communications and interaction among structurally defined groups connected by blood, kin, community and other affinities such as religion" (Hyden, 1987:119). He argues that these result in different ways of constructing trust and meaning and result in means of regulating power which tend to be overlooked by conventional analyses.

Similarly, Berry argues for the need to re-conceptualise the dynamics of African agrarian change (Berry, 1993). Her study spanning four African contexts, including Central Kenya, argues that the interaction of colonial power with African society involved debates over the meaning of customary rules and practices and that ability to influence the colonial order required engagement in these debates. As a result she suggests that:

[15] The characteristic that accumulation tends to occur through off-farm circuits is further discussed in Chapter Eight.

"negotiability is not just an inconvenience ...but a pervasive feature of social and economic processes which calls for reconceptualization ...In rethinking African agrarian change we need to begin with historical and anthropological literature which represents law as social process, transactions as subject to multiple meanings and exchange as open-ended and multidimensional rather than single-stranded and definitive.......If rules, transactions and values are ambiguous and negotiable, then economic activity cannot necessarily be explained in terms of decisive choices or efforts to gain exclusive control over goods and resources. If access to resources depends on one's ability to negotiate, people may be more interested in keeping options open than cutting them off, and in strengthening their ability to participate in and influence negotiations rather than acquiring exclusive control over resources and severing connections which are not immediately profitable." (ibid:13-14).

As a result the construction of political power requires a continual negotiation of social inclusion to establish legitimacy and exclusion to make access to resources worthwhile. The self-help movement in Kenya seems to exemplify these underlying yet contradictory pressures.

Harambee, meaning "Let's pull together" in Swahili was the rallying slogan of Kenyatta's presidency. These self-help activities can be characterised as local initiatives for development – often involving the building of small-scale local infrastructure such as schools and clinics. They involve local committees who draw on politicians and elites to contribute and assist in mobilising external resources – often from the state. Hyden argues that it is only through detailed and careful analysis of processes such as that of self-help that the dynamics of peasant leverage and wealth accumulation and redistribution in Kenya can be understood (Hyden, 1987). Holmquist suggests that self-help in Kenya is characterised by "class alliance and class conflict" and cannot be seen as simply an instrument of either the state or the peasantry since all find something to benefit from in a process that "embraces the major contradictions of the political economy" (Holmquist, 1984:73).

Thomas concludes from her detailed research on the distribution of contributions to, and benefits from (i.e. in terms of those who were able to use facilities), *harambee* shows that it encouraged the transfer of resources from richer to poorer households and from urban to rural areas as elites contributed generously. It allowed a means through which private wealth could be "put to public use in ways which are considered socially and ethically appropriate…Yet the institution of Harambee, in the broadest sense, is used by all to justify the accumulation of wealth in an economic system which fosters great inequities. It is also used to legitimise the amassing of power because it serves as a key instrument whereby those who are most powerful can best aid their local communities" (Thomas, 1987:477). On the basis of her research undertaken in 1978-79 - at the very end of the Kenyatta era - Central Province was one of the largest beneficiaries receiving one third of the resources generated and suggesting that the Kikuyu were particularly successful in using these mechanisms.

This rapid growth in self-help activities included an expansion of the co-operative sector with SACCOs becoming a feature of this expansion in the 1970s. The links between co-operatives, state intervention and politics are well documented and constitute core aspects of the pathological account of co-operative performance (Robert, 1983; von Pischke, Adams et al., 1983; Hyden, 1987). However, Zeleza suggests that rather than analysing them as "alien institutions" (ibid:68) and examining the extent to which they achieve standards of bureaucratic and productive efficiency, it is important to assess their role in accumulation and understand the political economy of their relationship to the state (Zeleza, 1990). According to Zeleza, independence produced new competition and accountability for political roles and made politicians "potential community patrons in the self help process" (Zeleza, 1990:73 quoting Holmquist). Politicians who resorted to forming co-operatives did so in order to enhance their economic and social interests.

5.1.5 Conclusion

This section has established key features of Kikuyu social relations and their relation to broader processes of political economy. It has indicated the importance of lineage and its relationship to land, which provides important context to the discussion of land in the next section and in Chapter Eight. Second, it has indicated that age relations were historically important as crosscutting structures of social relations among both men and women. This aspect of women's social relations will be discussed further in Chapter Ten. Discussion of intra-household gender relations suggests that women have historically had control over a limited range of intra-household resources – especially their food crops – and have extended their control over cash incomes in the absence of men. For men, however the pressures of land shortage, which in part precipitated Mau Mau, resulted in the prioritisation of lineage relations over age-sets, but age has remained important in the way it offers milestones of maturity.

Lonsdale suggests that Mau Mau precipitated a debate among the Kikuyu over the moral economy, which centred on the relationship between private wealth and public status. This is also reflected in other analysts' discussion of the relationship between social relations and processes of wealth accumulation and distribution. In the pursuit of private wealth individuals seek to gain access to wider circuits of patronage and accumulation. To achieve this requires inclusive strategies that legitimate political power and public status and may require the distribution of private resources. Thus creating a complex articulation between social networks with the deployment of economic resources, which are characterised by apparently contradictory pressures.

Self-help activity embodies these dynamics. Hence, the importance of this discussion lies in its relevance to the way in which different types of organisations relate to these underlying dynamics: self-help forms of financial service provision and co-operatives in particular embody these pressures. However, before returning to the role of coffee co-operatives later in the chapter, it is first necessary to provide a profile of household and livelihoods in Mathira.

5.2 A profile of households and livelihoods in Mathira

Mathira's location on the slopes of Mt Kenya means that it has fertile volcanic soils and good rainfall. Indeed, the First Report on Poverty in Kenya suggests that when rains are good then there is no absolute poverty in Nyeri District (Government of Kenya, 1998). But, in recent years rainfall has been erratic with floods associated with the *El Nina* phenomenon in 1997 and poor rains in two subsequent seasons in 1998 and 1999. The industrial and service sectors are little developed and mainly informal. The research was carried out in three areas of Mathira Division selected to represent what were anticipated to be the key livelihood types: first, the sub-location of Chehe in the tea zone; second, the sub-location of Gatundu in the coffee zone; and third, Karatina Town where livelihoods are more heavily based on enterprise and employment. The tea and coffee zones are divided by altitude with tea doing well on the cooler upper slopes and coffee requiring warmer lower slopes of Mount Kenya. This section uses data from the first round random survey of 150 households and expenditure data from the second round survey of 68 individuals to present a profile of households and livelihoods in Mathira.

5.2.1 Household composition

Men head 77% of rural households (Chehe and Gatundu) and 58% of town households. Of the 23% of rural households headed by women, 19% were widows. However in Karatina Town 42% of households were headed by women and none of them were widows. This represents a clear trend to the establishment of households by young single women in town. The mean age of household heads in town is much lower than that in the rural areas – averaging 34 years with only small differences between men and women heads. In the rural areas, the mean age of male households heads was 50 years in Chehe and 44 years in Gatundu. Female household heads in rural sub-locations had an average age of 56 years, reflecting the widowed status of most of these women.

Mean household size is rather lower in Karatina at 2.8 than in the rural sub-locations at 4.2, with households in Gatundu tending to have slightly more dependents (under 15) than households in Chehe. These figures are consistent with 1999 Census Data for Nyeri[16] as a whole which gives average household size as 3.94, but suggests that these households are smaller than the Kenyan average of 5.56 persons (1994 data) (Government of Kenya, 1998).

The education levels of household heads in the rural areas averaged seven years of schooling, with a median of seven years in Gatundu and eight years in Chehe. This suggests that the majority completed primary school under the earlier education system.[17] Some 15% had not attended school at all, while 35% in Gatundu and 30% in Chehe had

[16] Data obtained from the District Offices in Nyeri.
[17] The education system was changed to 8-4-4 in the late 1980s, having previously worked on the basis of 7-5-3.

completed 12 years, that is, secondary school. In Karatina town only 13.5% of household heads had less than 12 years of schooling, suggesting that the majority had completed secondary school. These education levels, although based on household heads, appear high. However, Mathira is known locally as "Mathira of the educated" and people in this area were some of the first to benefit from the mission schools set up by the British. The role of education in gaining access to off-farm employment has long been highly valued.

5.2.2 Land holdings and ownership

Table 5.1 shows that 15% of households in the sample had no land at all and the majority of these were households in Karatina town. Only one household in Gatundu had no land[18]. The mean landholding size in Chehe was higher than in Gatundu (significant at 1%) and Karatina.

Table 5.1: Total landholding size of households in Mathira* (percentages)

% of hhs	Chehe (N=49)	Gatundu (N=50)	Karatina (N=47)	Total (N=146)
No land	0	2.0	44.7	15.1
<1 acre	28.6	38.0	4.3	24.0
1-3 acres	28.6	48.0	29.8	35.6
3-5 acres	24.5	10.0	17.0	17.1
>5 acres	18.4	2.0	4.3	8.2
Total	100	100	100	100
Mean land area	2.33	1.72	1.32	2.12

* data from first round household survey

Two-thirds of the total landholding area of these households was land owned by household heads (Table 5.2) but only 39% of households had access to land with a direct title. Table 5.3 further indicates that where household heads owned land, only 29% owned holdings of more than one acre and only 6% owned holdings of more than five acres. The average size of owned land in Chehe (2.15 acres) was more than double that in Gatundu (1.06 acres), and a smaller proportion of households actually owned land there - 34% in Chehe compared to 54% in Gatundu.

[18] This was a very old blind lady who, while living in her own home, was provided with food by her sons in rotation. Since members of the family cooked the food in her home in turn, she fitted the definition of a household as based around a cooking pot. But she had already allocated her land to her sons.

Table 5.2: Total land area accessed by sample households by ownership type

Ownership type	Total acres	% of total land area	No of hhs with access to this type of land (%)	No of hhs with access to *only* this type of land (%)
Total land area	309.4	100	128 (85)	
Land owned by hh head	208.1	67	58 (39)	44 (29)
Land owned by father of hhh	53.0	17	53 (35)	32 (21)
Land in name of deceased husband	7.75	2.5	3 (2)	2 (1)
Rented	10.2	3.3	17 (11)	3 (2)
Borrowed	0.25	0	2 (1)	1 (1)
Road reserve	0.2	0	1 (1)	0 (0)
Forest land	12.45	4.0	21 (14)	2 (1)
Other	16.4	5.3	10 (7)	6 (4)

Table 5.3: Land owned by household head (percentages)

% of households	Chehe (N=50)	Gatundu (N=50)	Karatina Town (N=48)	Overall (N=148)
None	66	46	71	61
Land owned of which: =<1 acre 1-5 acres >= 5 acres	34 4 18 12	54 22 30 2	29 4 21 4	39 10 23 6
Mean holding size	2.15	1.06	1.0	1.41

Table 5.4: Land owned by father of household head (percentages)

% of households	Chehe (N=49)	Gatundu (N=49)	Karatina Town (N=50)	Overall (N=148)
None	53	57	82	64
Land owned of which: =<1 acre 1-5 acres >= 5 acres	47 31 14 2	43 39 4 0	18 8 10 0	36 24 11 1
Mean holding size	0.59	0.24	0.25	0.36

While land owned by the father of the household head accounts for only 17% of the land area (Table 5.2), 35% of households had access to this type of land and 21% of households *only* had access to this type of land. 39% of households in Gatundu and 31% in Chehe had holdings of less than one acre of such land (Table 5.4). Moreover, the mean land area in Chehe for households where the head's father owned the land was 0.59 acres and 0.24 acres in Gatundu. This demonstrates the prevalence of sub-division resulting in smaller holdings held by the next generation[19] – these holdings being approximately 25% of the size of those where the household head owns the land.

The data also illustrates a variety of other land arrangements. Table 5.2 indicates that three widows had access to land through the title of the deceased husband. The category termed 'other' involved cases where another member of the family owned the land. Five of the ten cases were those of female-headed households where the land was owned by a father-in-law, uncle, or the deceased husband's parents. In a further two female-headed households, one husband had emigrated and his land had been lent out; in the other, it appears that it was the husband's land and the couple were separated i.e. in neither case was the woman using that land. For the remaining five male-headed households the land was owned by a grandfather; by mother's in two cases[20]; by the wife's parents[21]; and in the last case a polygamous husband aged 76 had formally divided and registered his land to his two wives, presumably to ensure clarity in subdivision on his death. Rented and borrowed land, and land in the forest and on road reserves were the only types of land to which 4% of households had access.

Household cultivated area was also larger in Chehe (3.4 acres) than Gatundu and Karatina town (1.5 acres).[22] Moreover, 18% of households in Chehe had more than 5 acres of land under cultivation compared to 2% in Gatundu; and 24.5% of households in Chehe were

[19] Pressure on smallholdings and the need to provide opportunities for the absorption of Kenya's rapidly growing labour force provoked calls for land reform in the 1970s (Hunt, 1984).
[20] Although it is probably the case that the title deeds were still in the names of their deceased husband's.
[21] In this household, the wife is 65 and the husband 49, this may indicate a second and late marriage and the wife had already acquired cultivation rights on her parents farm which had not been relinquished on her late or re-marriage.
[22] The Chehe figure includes two households who had land holdings in Kieni and Laikipia - areas to the north of Karatina which are quite different agro-ecologically being semi-arid and which represented an area of expansion in the 1970s through land buying companies. However even removing these from the data produces a mean cultivated area of 2.8 acres for Chehe.

cultivating between 3 and 5 acres compared to 10% in Gatundu. Cultivation tends to take place across a number of plots with the maximum number of plots cultivated being five in Gatundu, four in Chehe and three for households in town. However 64% of town-based households did not cultivate at all. By contrast 52% of households in Chehe cultivated more than one plot – in part due to access to plots in the forest – while in Gatundu only 34% cultivated more than one plot.

The overall pattern then appears to be that the majority of households (81%) had access to land through family relationships - but only 39% had a title. 15% had no land at all and 4% had access only through borrowing, renting and other similar arrangements. Holdings in the tea zone tended to be bigger than in the coffee zone, but a higher proportion of household heads own their plots in the coffee zone than in the tea zone. Sub-division is resulting in ever-smaller holdings, and mean holding sizes of 0.24 acres for households heads whose fathers still own the land are insufficient for subsistence. The implications of these patterns of land holding for financial service use are discussed in Chapter Eight.

5.2.3 Income sources

Respondents were asked to name and rank their three main household income sources. In Gatundu, 52% of households (see Table 5.5) indicated that coffee was their primary income source with a further 16% indicating it as a secondary source and 6% as a tertiary source. Hence 74% had coffee as a main source of income. Horticultural crops were a further important agricultural income source (18%) as the sub-location is on the main Nairobi road enabling access to both local and Nairobi markets. Piped water from the Rupingazi River has been extended to many parts of the sub-location either as part of rural water projects or to serve coffee factories. Some farmers had been able to extend these to their farms for sprinkler irrigation systems and produce kale (*sukuma wiki*), tomatoes, sweet peppers and egg-plants. 16% indicated that wage employment was their primary income source and 8% were mainly dependent on small business. Only two households (4%) were primarily dependent on casual labour, although a further 18% indicate it as a second or third main source. Other agricultural incomes included milk and food crop sales but these were the primary source for only one household (2%). Dairy cows are usually kept under a system known as "zero-grazing" with fodder being cut and brought to the animals in a stall. This predominates in Gatundu, however in Chehe some cows can be seen grazing in fenced fields while others are grazed in the Mt Kenya Forest.

Table 5.5: Primary income sources by sub-location (percentage of households)

Primary Income source	**Gatundu sub-location**	**Chehe sub-location**	**Karatina Town**
Coffee	52		2
Tea		58	
Horticultural crops	18	4	
Other farming		8	
Employment	16	10	52
Small business	8	4	40
Casual labour	4	16	2
Other	2		4
Total	100	100	100

In Chehe, 58% of households are dependent on tea as their primary income source with a further 18% having it as their second or third most important source, giving a total of 76% for whom tea is an important source. Horticulture in this area is less developed than in Gatundu with fewer having access to irrigation. By contrast to the coffee zone some, 16% of households were dependent on casual labouring as a main source of income. This reflects the fact that tea picking continues all year round and apart from smallholder tea farms, the Nyayo Tea Zone is a major source of casual employment. The Nyayo Tea Zone is a 100 metre wide strip of land on the perimeter of the Mt Kenya Forest virtually circling the mountain. Moi ordered the forest to be cut and planted with tea in the late 1980s. The company that runs it is the Nyayo Tea parastatal. Some parts of Chehe close to the forest are home to a number of households who, until 1990, lived in the Mt Kenya forest. They were forced out by the Government and re-settled themselves along road reserves but are still allowed to cultivate and graze animals inside the forest. It is many of these that also provide much of the casual labour in tea picking. Employment and small business are the main source of income for only 14% and second or third income sources for another 22%. Horticultural crops and income from milk and food crops are the primary incomes for the remaining 12%.

In Karatina town, 52% of households derived their main income through employment and 40% from small business. A small proportion of these households have land and farming activities while being based in town but the diversity of income sources is notably lower for town households reflecting their smaller size and lack of land.

5.2.4 Consumption poverty

Data on household expenditure was collected during the second round survey of 68 men and women in 44 households. As indicated in Chapter Four above, the issue of how to combine household expenditure estimates from husband and wife that do not agree is problematic. Data has therefore been treated as indicating poverty at an individual level.

Table 5.6 indicates the position of individuals with respect to the poverty lines for both food poverty and overall poverty based on the methodology used in the Government of Kenya's Second Welfare Monitoring Study (Government of Kenya, 1998) (see Annex One for a more detailed explanation). This suggests that twelve individuals faced food poverty but only seven lived in overall poverty. This is somewhat contrary to expectations since it would be more likely that, putting food first, more people would be in overall poverty than food poverty. This may be a result of the unusually high price of food at the time of the survey[23] as a result of both the 1999 drought and the conduct of the survey just before the harvest when food is more scarce (July). While food expenditure was collected for the previous month, some components of expenditure were collected on an annual basis (school fees, health expenditure and clothing) and averaged for monthly expenditure so that these amounts are likely to have been less affected.

Table 5.6: Poverty status of individuals in the second round sample

	Food poverty		Overall poverty	
	No.	%	No.	%
Below poverty line	12	18	7	11
100-200% of poverty line	30	46	22	33
200-400% of poverty line	23	35	20	30
>400% of poverty line	1	2	17	26
Total	66	100	66	100

At the other end of the poverty scale, the number of households with expenditure of more than four times the poverty line increases from one in the food poverty categories to 26 for

[23] The price of a 2kg packet of maize flour was over Kshs70 at this time, by comparison the price at the end of 1999 was Kshs55.

the categories of overall poverty. This is no doubt the result of the fact that food accounts for a smaller proportion of expenditure for better off than poorer families.

The extent of agreement between the estimates of men and women in married households has been assessed on the basis of whether their estimates put them in the same or different poverty categories as described above. Of the 24 married households, in ten their estimates put them in the same poverty group; in nine their estimates were one category apart and in four they were two categories apart. The differences suggest the extent to which men and women control income and expenditure in the household and this is very important when it comes to the demand for financial services, as will be discussed in Chapter Ten.

Since this data was collected in the context of poor rains, the overall picture here is consistent with the conclusion of the Government's poverty report, that Nyeri has very little or no absolute poverty in a year when the rains are good. Indeed, with some 52% with expenditure levels of more than twice the poverty line, this supports the view that Nyeri is one of the districts with the least incidence of poverty in the country as a whole (Government of Kenya, 1998).

5.2.5 Housing and household assets

82% of households in Chehe and Gatundu lived in informally constructed buildings. These mainly took the form of wooden walls and an iron roof. Only one widow in Gatundu lived in something more akin to a traditional hut. Even those in Chehe who have built their houses on road reserves say that they own them so indicating a degree of confidence in their rights to stay there. In town by contrast the majority were renting accommodation in formally constructed housing usually with brick walls, iron sheet roofs and cement floors. In town most households had electricity (94%) that they at least used for lighting, whereas very few do in the rural areas.

The first round survey asked whether households possessed any of seven assets: radio (81%), sofa set (75%), TV (40%), table and chairs (32%), bicycle (26%), electric cooker (19%), car (7%), fridge (5%), other vehicle (1%). The electrical items were of course concentrated in town where there was electricity. Town dwellers owned approximately 1.5

more assets than rural dwellers – with no difference between Gatundu and Chehe on the asset count.

5.2.6 Livelihoods in Mathira: summary

This data on households and livelihoods suggests that Mathira households are smaller than the national average and that household heads tend to have relatively high levels of education. National poverty data suggests that Nyeri is one of the districts with the lowest incidence of poverty. The proportion falling below a nationally defined poverty line in this research is also relatively low (less than 20%).

Households in Karatina Town present some distinct characteristics compared to rural ones: they are likely to be smaller, household heads to be younger and more educated, are more likely to be headed by single women and less likely to cultivate or own land.

Rural households are heavily dependent on cash crops of tea and coffee, while those in Karatina are more likely to be employed or be in business. However, land holdings are becoming ever smaller with sub-division demonstrate growing fragmentation and holdings in Gatundu generally being smaller than in Chehe. In addition, 81% of households had access to land through family (or lineage) relationships but only 39% actually held titles to this land.

5.3 Kenya's economy and politics in the 1990s

This section builds from the previous discussion of political economy to describe the national political context of the 1990s. This serves to demonstrate the persistent and pervasive nature of patterns of patronage and accumulation. Further it explains two important aspect of the background to financial markets in Mathira: the position of the Kikuyu in national level politics and how this relates to developments in the banking and parastatal sectors.

The dynamics and logic of Kenya's politics, based in ethnicity and class, have been debated (Nyangira, 1987). Cowen and Kanyinga argue that it is those with economic interests and their search for political representation that make the links between the local and national in Kenyan politics. This is expressed through communal forms of identity linking territory, culture and sources of economic subsistence and accumulation (Ogachi, 1999; Cowen and Kanyinga, 2002). Politics is therefore more than simply a tribal game. Throup argues in a similar vein that "politics is held together both at the national level of competition between its ethnic subnationalities and in the districts by a complex series of interlinking patron-client relationships" (Throup, 1987:48).

The most important aspect of change in Kenya in the 1990s has been the shift to a multi-party political system. Pre-independence a number of small parties mobilized in opposition to the Kenya African National Union (KANU) led by Kenyatta and dominated by the Kikuyu and Luo. By 1960 the small parties had merged into the Kenya African Democratic Union (KADU). KADU represented a range of smaller ethnic groups from the Rift Valley and Western Kenya who feared the Kikuyu - the main instigators of the Mau Mau uprising in the 1950s – and were to some degree supported by settlers who also wanted a means to resist their hunger for land (Kanyinga, 1998). KADU demanded a federal system of government (*majimbo*), which by offering greater power at local level would have better enabled local groups to manage claims for land.[24] However, the constitution did not take this form and by 1964 KADU requested to be wound up and incorporated into KANU. In 1966, rivalry over leadership of the Luo within KANU between Oginga and Mboya led to Mboya's formation of the Kenya People's Union with a strong socialist agenda. The government proscribed the party in 1969 due to the popularity of its views on the land question (Kanyinga, 1998). As a result Kenya became a *de facto* one party state although the Constitutional amendment (Section 2A) that legitimised this situation was not actually passed until May 1982.

During the late 1980s, pressure for a multi-party political system was propelled forward by both domestic and international events. After an attempted coup in August 1982, Moi moved to consolidate his position in a range of ways, including the systematic persecution of opposition (Chege, 1994). A further means was the institution of queue voting in the

[24] Kanyinga argues that the centrality of land to the constitutional structure of Kenya is illustrated by the arguments over regionalism that occurred at independence and again in the 1990s as political liberalisation became inevitable, and was floated as a means to gain control over resources belonging to particular ethnic groups (Kanyinga, 2000).

1988 elections, which was extremely unpopular. With the fall of the Berlin Wall in 1989, Kenya's position as a bulwark of the west against communism in East Africa also crumbled and with it the access to aid that this position had conferred. In 1991 the Forum for the Restoration of Democracy (FORD) attempted to hold rallies in Nairobi, but its leaders were arrested and the 7th July riots (*"saba-saba")* resulted leading to international censure. The rising pressure resulted in the repeal of Section 2A of the Constitution in December 1991 and Presidential and Parliamentary elections in December 1992. Moi won the 1992 and 1997 elections due election malpractice and the proliferation of opposition parties that split the opposition vote (Chege, 1994; Southall, 1998). Moreover the condition that any Presidential candidate must win at least 25% of the vote in five of eight provinces also ensured that numerically dominant and geographically concentrated ethnic groups would have great difficulty winning - especially the Kikuyu in Central Kenya and the Luo in Western Kenya.

Since the 'Kenya debate' of the 1970s, which discussed the existence of an indigenous African capitalist class, the importance of the state to accumulation under the patronage of the Kenyatta regime has come to be accepted (Leys, 1996; Cowen and Kanyinga, 2002). That the Kikuyu dominated these accumulation processes came to be a source of antagonism for others[25] who perceived their own exclusion. Moi set about reversing these processes and enabling access to state resources by the minority tribes he represented after his succession to the Presidency on Kenyatta's death in 1978 (Throup, 1987; Ogachi, 1999; Southall, 1999; Cowen and Kanyinga, 2002). "On both economic and political grounds, President Moi has had to depend more upon the state as an arena for the primary accumulation of capital and, to retain political support, has centralised political patronage to a far greater extent than was apparent during the Kenyatta years" (Cowen and Kanyinga, 2002, 136). According to Cowen and Kanyinga this was a result of the different international economic and political environment which increased the political opposition faced by Moi and made it more important to use ethnic politics to retain control over state power, a key dimension of which was the ability to dispense economic patronage.

[25] It is important also to recognise the ways in which ethnicities such as the Kikuyu or Kalenjin are a product of political and social process and not necessarily pre-existing. The Kalenjin is an alliance of small groups including the Nandi, Kipsigis, Tugen and others but in much everyday debate is used as if it indicated a single tribal grouping. "The conversion of negotiable ethnicity into competitive tribalism has been a modern phenomenon. It mirrored the growth of the state. Tribe was not so much inherited as invented" (Lonsdale, 1992, 329).

This trend helps explain the pattern of economic policy over the 1980s and 1990s. Kenya was the first African country to receive a Structural Adjustment loan from the International Financial Institutions in 1980 but the record of reform was not positive, rather a pattern emerged in which the Government was able to take the money and avoid implementing the policy conditions attached (Mosley, 1991). Collier reports that the Kenyan Government "sold the same set of agricultural reforms to the World Bank four times, each time reversing it after the receipt of the money" (Collier quoted in (O'Brien and Ryan, 2001, 530)). As has been found elsewhere, it was relatively straightforward to implement changes in monetary, fiscal and exchange rate policies under central control but reforms to the civil services, parastatals and other government organisations are much more difficult to implement because of their implications for reduced patronage. Prior to the December 1992 elections, concern over the political situation and the difficulties encountered by the IFIs in promoting reforms, especially government restructuring, led to the suspension of balance of payments support (O'Brien and Ryan, 2001).

The record of economic policy reform after the 1992 election continued to be erratic. Inflation had spiralled in the period leading up to the elections as the government was forced to borrow domestically through Treasury Bills and to print money. Aid resumed in mid-1993 and efforts were made to get inflation under control. While more progress was made in areas such as price decontrol and tariff reform, reform of the civil service and of state owned enterprises was still problematic. Aid was again suspended in 1997, prior to the December 1997 election. Despite apparent progress with liberalisation in many parts of the economy, this has also been a mechanism through which elites have been able to consolidate their economic and hence political positions. Privatisation has been characterised by a lack of transparency in the valuation and sale of assets and hence their sale to members of the political elite was a means of rewarding them (Tangri, 1999). It took some time for a new agreement to be negotiated in August 2000 with what were reported to be the most stringent conditions ever imposed in Africa (Holmquist and Oendo, 2001). Richard Leakey - a White Kenyan and political opponent of Moi whose appointment as Head of the Civil Service in 1999 was a great shock to many Kenyans - led the negotiations. Despite Leakey's attempts at civil service reform and the rationalisation of ministries, the implementation of anti-corruption measures that were conditions of the agreement stalled in December 2000, leading to the further suspension of lending in January 2001 (Holmquist and Oendo, 2001). The late 1990s have been a period of macro-economic decline with official figures indicating that year on year growth has declined steadily from 4.6% in 1996, to 1,4% in 1999 and turning into negative growth of 0.3% in 2000 (Central Bank of Kenya, 2001). Agricultural growth in 2000 had declined more rapidly to negative 2.4%.

Southall describes Moi's regime as kleptocratic and argues that these processes have, in turn, undermined the economy. He argues that the resources of the state used for patronage and accumulation by the elite are either consumed or poorly invested, hence undermining the economy's productive potential: government revenues for example have been redistributed away from the more productive central Kenyan region to the less productive areas (Southall, 2000). Moreover, Klopp argues that increased patronage resources have been needed at a time when they have been declining, since political liberalisation has increased the bargaining power of politicians by giving them the option of defecting to the opposition (Klopp, 2000). Thus Southall identifies Moi's strategy in relation to the IFI's as being to tackle public expenditure and corruption concerns sufficiently to regain support and replenish the dwindling sources of patronage. Coming to the end of his constitutionally allowed two-term tenure as President in early 2003, Moi faces the key dilemma of how to structure a succession plan that protects the ruling elite when both domestic and international actors see them as the source of Kenya's problems (Southall, 2000: 209).

Multi-party politics in Kenya has deepened the division between the Moi government and the Kikuyu as the key opposition group. Their domination of both politics and the economy in the Kenyatta era has led to attempts to redistribute resources towards minority groups who are part of Moi's coalition. The coherence of this alliance has required increasing patronage resources under the multi-party system, which has resulted in increasingly unproductive patterns of resource allocation that have marginalized the Kikuyu.

5.4 The political economy of financial sector development in Kenya

This section links these broad trends in the political economy of Kenya to financial sector policy in the 1980s and 1990s. First, financial sector policy to liberalise interest rates can be seen against the backdrop of broader pressures for economic reform. Second, the origins and evolution of the formal financial sector are reviewed with particular attention to the ways in which these relate to access to financial services for the Kikuyu.

5.4.1 Interest rate policy

The main change to financial sector policy has been the liberalisation of interest rates. In the 1980s nominal interest rates, while still controlled, were gradually increased and finally deregulated in 1991. Control over lending fees and charges were removed in 1990 (Brownbridge, 1998). Further developments in the early 1990s were the removal of credit ceilings, the liberalization of foreign exchange markets and allowing commercial banks to deal in foreign exchange and accept it as deposits, alongside the adoption of a floating exchange rate in 1993.

The decontrol of interest rates does not appear to have had significant positive effects either on deposit mobilisation, or the efficiency of intermediation in which spreads are driven down by competition (Ngugi and Kabubo, 1998). Rather, Ngugi and Kabubo calculate that positive real interest rates were not achieved until 1993, with negative real lending rates occurring in half of the years between 1972 and 1993. Although interest rates have been driven up in the 1990s by monetary and fiscal policy, especially the trends in Treasury Bill rates, spreads have widened rather than narrowed. This, they argue, has been a result both of the level of uncertainty arising from inflationary expectations (due to elections) and exchange rate depreciation, and the oligopolistic nature of the market among the main commercial banks in which they have little incentive to compete for deposits.

5.4.2 Developments in the banking sector

The formal banking sector in Kenya has its roots in the British owned banks of the colonial period: Barclays, Standard Chartered and Grindlays. In the post-independence period, government-owned banks were established through start-up and nationalization since the internationally owned banks were seen as too concentrated on the white-settler economy and international companies and not responsive to the needs of African business. The National Bank of Kenya (NBK) was established in 1968. In 1970 the Government bought 60% of Grindlays in a nationalization initiative and it became Kenya Commercial Bank (KCB). The Co-operative Bank was founded in 1965 as a bank for the co-operative sector. While not owned by the government, its formation was also a move to enable the banking sector to better serve African economic interests. Four banks - Barclays, Standard Chartered, KCB and NBK - dominate the formal banking sector accounting for 50% of the deposits of all formal banks in 2000 (Market Intelligence, 2001) - down from 70% in the mid-1990s (Brownbridge, 1998). In 1999 there were 53 commercial banks with 465 branches although many banks have branches in main cities only.

Kenyan post-independence policy towards the financial sector was extensive but not especially repressive in Brownbridge's view, as the banking system expanded both in terms of institutional diversity and the value of assets and liabilities in the system (Brownbridge, 1998). He indicates that the government's effort in directing the system mainly involved setting up government owned banks, non-bank financial institutions (NBFIs) and development finance institutions and did not directly interfere in the operations of the international commercial banks. Thus while commercial banks were required to lend some 17% of deposits to agriculture, such a target was never attained (Shipton, 1992; Ndii, 1994). Controlled interest rates and credit ceilings were used, but within these bounds, the international commercial banks could lend on commercial criteria.

Over the 1980s and 1990s the formal financial sector has been characterised by a series of banking crises and increasing instability involving both local banks and NBFIs. The first of these crises occurred in the period 1984-9, during which some twelve NBFIs failed. The NBFI regulatory requirements were more liberal than those for banks with lower minimum capital requirements and higher interest rate ceilings on both deposits and loans (Johnson, 1994). The expansion of this sector in the late 1970s and early 1980s was again spurred by a concern that the commercial banks were not serving the interests of indigenous business and especially the small-scale enterprise sector (Brownbridge, 1998). Brownbridge categorises the NBFIs into three: first, what are called 'political' banks because they had a prominent politician amongst their shareholders; second, Asian-owned and independent of politicians; third, independently African-owned. The African and Asian owned NBFIs were set up by businessmen who had accumulated sufficient levels of capital through commercial activity and who had a potential market amongst their own communities. A number of these– both the 'political banks' and some of the African owned independent NBFIs - were connected to Kikuyus.

Brownbridge reports that the banking crises have been due to a number of factors. One feature has been that the "political" banks used their connections to government to obtain deposits from the public sector. This in turn resulted in lending decisions that were controlled by a family or individual and were either fraudulent or imprudent. Then poor management and the failure of borrowers to repay in the context of Central Bank capitalization requirements, which had been evaded, soon jeopardized their viability. Lehman argues that the mid-1980s crisis that mainly affected NBFIs was caused by a political dispute between the Kikuyu and Kalenjin and the President had the Ministry of Finance and state companies withdraw their funds from Kikuyu owned banks so precipitating their collapse (Lehman, 1992). Ogachi goes as far as to call this part of Moi's "economic war against the Kikuyu" (Ogachi, 1999:97; see also Throup, 1987).

Some of the 1993-4 bank failures were probably also a result of fraud in relation to the 1992 election campaign: the Goldenberg[26] scandal being the biggest and most audacious of these. The scale of these problems also increased. Brownbridge calculates that the NBFIs that were closed in the mid-1980s represented approximately 2% of commercial bank and NBFI deposits and those closed in 1989 approximately 1%. Those closed in the 1993-4 period probably represented in the region of 10% of deposits.

The banking business of KCB and NBK also has strong public sector links, with 30 to 50% of deposits and a significant proportion of NBK's loan portfolio being public sector business (Brownbridge, 1998). NBK has emphasised the agricultural sector while KCB's focus has been in the commercial sector. Brownbridge notes that the deposit of public

[26] The Goldenburg scandal involved the alleged fraud of a huge sum in export compensation via the Exchange Bank. The amount involved accounted for 6% of GDP. (Brownbridge, 1998)

sector funds and unviable lending decisions were often government directed, and has resulted in particular problems for NBK.

The late 1990s has seen the further development of these trends with the malaise now moving to the main commercial banking sector and affecting both KCB and National Bank. Total NPLs in the banking sector increased dramatically from Kshs56bn in 1997 to Kshs97bn in 1999 (including the portfolios of 30 banks under liquidation), with the most serious problems for the main banks being faced by KCB (42%) and NBK (70%) (see Chapter Six, Table 6.2). The increased level of NPLs reported has been brought about by two factors, first is the poor overall performance of the economy, but second, the CBK introduced much stricter guidelines on loan classification.

The liquidity crisis at NBK and the potential threat of its collapse in 1998 was extremely serious since NBK's deposit base (Kshs20bn), accounted for approximately 7% of total deposits in the banking system. This was not the first time that NBK had required assistance. It was given an injection of funds by the government in the late 1970s and restructured in the early 1990s, but at the same time the underlying problem of political interference was not addressed (Brownbridge, 1998). The 1998 crisis and the NPLs of the NBK have been strongly linked to the List of Shame published in May 2000. This was a report by the Public Accounts Committee that sought to expose and publicly shame politicians and members of the elite who had not paid their debts and who had acquired resources through fraudulent means:

> "The root causes of the problems at NBK were political interference and mismanagement. The bank has been used to prolong the lives of non-viable parastatals. It is political interference that caused the bank to give big loans to insolvent companies belonging to privileged borrowers. In many cases, some of the privileged borrowers have been allowed to take new loans to service old ones...convinced that the board of the bank would not have the guts to foreclose on their assets and companies" (Weekly Review, 1999:12).

A discussion also took place in the press as to whether KCB's debtors should be "named and shamed". KCB was expected to undertake a huge restructuring with the closure of a lot of its branches (East African Standard, 2nd November 1999). The Managing Director of

Barclays Kenya was appointed to run KCB in May 2000 and by mid-2001 was predicting its return to profitability in the wake of this restructuring.

The pattern of manipulation of the banking sector for political ends has occurred repeatedly over the last twenty years and the situation at NBK has been contained, but at considerable cost. Despite the overt recognition of these causes by the Central Bank (Central Bank of Kenya, 1998), its ability to reverse the trend has not yet been clearly demonstrated.

5.4.3 Development Finance Institutions: The Agricultural Finance Corporation

After independence the government established specialised development finance institutions (DFIs) as part of its strategy of support to the development of African agriculture and business. Examples of these are the Agricultural Finance Corporation (AFC) and the Industrial and Commercial Development Corporation (ICDC). The ICDC has been successful in supporting the development of African owned businesses through equity stakes. While it has operated loan programmes these have been relatively small in both loan capital and numbers of loans. However, here the AFC is discussed because of its importance to the rural sector.

The AFC was formed under the Agricultural Credit Act of 1963 and then restructured under the AFC Act of 1969 when it took over the Land and Agricultural Bank. It is described as a specialized non-depository institution and is exempt from both the Companies and Banking Acts. Its remit is to assist the development of agriculture and agricultural industries and loans were secured against land. It has been funded by soft loans and grants from international agencies to the Kenyan government. In 1989 it owed 88% of its capital to the government. Although it was not expected to be profit making it was expected that to become self-reliant. During the 1990s, as donors withdrew support, its portfolio has been declining in size and quality. Its interest rates vary by loan scheme but are always below commercial bank rates but, unlike the banking sector, its rates were not liberalised in 1991.

The role of the AFC in relation to political objectives has also been evident (Leys, 1975; Johnson, 1994). Leys argues that eviction (i.e. repossession of land used as collateral) due to non-payment was less likely where borrowers had political connections, than for those who had fallen from political favour or who lacked political protectors. For the government this served the dual political purposes of strengthening its own position and appeasing the foreign creditors on whom it depended. However, this approach did not appeal to large farmers and "it was only a matter of time before they used their political influence to try to reduce their debt burden by manipulating the structure of control" (Leys, 1975:102).

Patterns of credit allocation have also been seen to be linked to politics, with Shipton noting that after the death of Kenyatta the overall amount of loans to Central Province declined (Shipton, 1992). In the early 1990s the distribution of seasonal credit for maize and wheat was heavily biased to the North Rift and Western Kenya (Otima, 1994:127). Otima found that large farms had higher default rates than small farms and those with off-farm incomes were less likely to default than those without. While Otima does not provide a headline proportion of non-performing loans to advances for AFC as a whole, the proportion of accounts in default ranged from 45% to 65% by area. In 1990 arrears in the Credit IV portfolio (World Bank loan funds received in 1987) were 8.4% with a collection rate of 69.5% (Otima, 1994). By the end of the 1990s inflation and the low collection rate had resulted in the AFC having few funds to lend. At the same time being unable to restructure itself because of the costs this would incur.

5.4.4 Conclusions

This section has explored the political economy surrounding the banking sector. It has highlighted its colonial origins and the way in which this gave rise to national banks to serve African interests. These operated alongside internationally owned banks in a financial sector that was not overly repressed, and controls were removed - including those on interest rates – in the early 1990s.

However, political interests have been key factors in the performance of both the national banks and NBFIs. During the 1980s people with political connections set up banks and were able to mobilise deposits from public sector institutions. Their mismanagement and corrupt lending decisions resulted in a series of banking crises which were also precipitated by the withdrawal of public deposits because of their Kikuyu links. The malaise of mismanagement and corruption has now spread to the national banks – NBK and KCB - in the late 1990s. The underlying shift in resource distribution away from the Kikuyu is also apparent in the performance of the AFC.

5.5 Cash crop marketing and financial services

In Mathira, the main productive activity is smallholder agriculture and coffee and tea have been shown to be key to household livelihoods. Given the importance of these cash crops, this section uses secondary material and key informant interviews to explain key aspects of change in the 1990s in these industries in the division, in particular how this has affected the provision of financial services.

5.5.1 Coffee production and marketing in the 1990s

In the ten years after independence there was a huge growth of the co-operative sector in general and particularly in relation to agricultural marketing. Small-scale coffee farmers were only allowed to market their coffee through coffee societies. The structure of coffee co-operatives in Kenya from the mid-1960s to the 1990s consisted of primary societies formed into higher Co-operative Unions usually at the District Level (Hedlund, 1992). This had the proposed benefits of enabling economies of scale in the carrying out of certain tasks such as book-keeping and accounting, and bulk purchasing of inputs. But this consolidation also allowed for increasingly centralised government control (Zeleza, 1990). The coffee processing system then moved parchment coffee (i.e. once it has been washed and dried) produced by the local factories, to the Kenya Planters Co-operative Union (KPCU) that milled the coffee to remove the parchment before the Coffee Board of Kenya sold it at auction.

In Nyeri there were so many factories in the District that primary societies were incorporated into Divisional level Co-operatives and then the District Co-operative Union. Mathira Coffee Co-operative Society was itself constituted of primary societies to which farmers belonged. By the early 1990s, Mathira Farmers Co-operative Society had approximately 26,000 members belonging to 36 factories and was known as "Mathira Giant" because of its size as certainly the largest coffee society in Kenya.

The government also encouraged the formation of the Co-operative Bank to provide co-operative societies with financial services and, by the end of the 1970s, it had over 1000 co-operative societies as members (Zeleza, 1990). The Co-operative Promotion and Credit Scheme (CPCS) initiated in the 1970s to provide agricultural credit to the small scale farming sector (Heyer, 1976) also provided credit to coffee farmers. At the same time, a scheme that enabled coffee payments to be credited to farmers accounts in the Union rather than being paid in cash, demonstrated the need for savings facilities (von Pischke, 1983). This led to the establishment of Union Banking Sections (UBSs) managing savings accounts, usually within DCUs. The system allowed member's savings to be mobilised for on lending and the UBSs could also raise funds from the Co-operative Bank to lend to their members (Alila and Obado, 1990). Credit facilities were developed that used the hypothecated crop as collateral and these have played a critical role in the sector and are described further in Chapter Six.

The coffee co-operative system has been in a state of transition in the 1990s. Two components of this transition are relevant here. First, from the early 1990s the influence of the Ministry of Co-operative Development in the management and administration was gradually rolled back culminating in the revision of the Co-operative Societies Act in 1997 that allowed them to run their own affairs. Second, in the late 1980s there had been a series of co-operative collapses due to mismanagement. By 1987, the government expressed the view in its "Sessional Paper on Renewed Growth" that these banking sections should become autonomous SACCOs with their own boards, separated from the District Co-operative Unions out of which they had arisen (which also operate input supply and marketing functions) (Alila and Obado, 1990). The rationale given was for the need to "streamline and harmonize the development of a viable co-operative banking system capable of safeguarding their money at the same time" (ibid:11). This policy was in part motivated by concerns raised by a series of late 1980s high-profile DCU failures. Since

Union Banking Sections of DCUs were usually highly liquid they were sources of funds for other DCU input supply and marketing functions and put member's savings at risk. This shift in policy has been an important aspect of the evolution of the UBS system in the 1990s, with this separation, unsurprisingly, causing much tension within DCUs.
In Nyeri, the DCU did not finally agree to separate out the UBS until 1997. It started selling shares in the SACCO in late 1998 and held its first election for officials in early 2000.

In the context of liberalisation, pressure rose from primary level societies to reject the role of the secondary District Co-operative Unions. This level in particular was renowned for mismanagement and corruption. In 1996 the primary societies in Mathira voted to "split" themselves from the "Giant Mathira" society and run their own affairs. They split themselves into 13 small co-operative societies managing between one and four coffee factories each. Such splits in the coffee co-operatives were not in fact new, they had started in the early 1980s in Muranga and Meru districts. Nevertheless Mathira was the first to do this in the newly liberalised environment of the 1990s. However, this split has produced a major question over the viability of these societies due to the loss of economies of scale in administration - now each factory is having to run an entire administrative structure including paying for vehicles and an entire committee to run it rather than just one member of the wider committee. The process of voting in 'splits' such as this has been highly political. In the neighbouring divisions of Tetu and Mukurweini, which voted to split in 1999 and 2001 respectively, the internal politics led to violence between 'pro' and 'anti' split factions with some deaths resulting.

Mathira Division produced some 14m kg of cherry in 1996/7, 8m kg in 1997/8 rising again to 15m in 1998/9. However these levels are far below the peaks that were reached during the late 1970s boom of some 30m kg. This is ascribed to low prices and the escalating costs of inputs. In early 2001, farmers were expecting to receive final payments - net of the costs of processing by the factories and their own advance payments and inputs – of less than five shillings per kilo in some factories in Gatundu. The level and volatility of coffee prices in international markets and difficulties with the liberalised milling system[27]

[27] The liberalisation of the milling system allowed private sector millers to compete with KPCU. This has created overcapacity in milling at a time when production has been low and according to Karanja has not therefore resulted in the expected cost savings (Karanja, 2002). The main new key player is Thika Coffee Mills that milled coffee for a number of societies in Nyeri. These societies complained that they had not received payments for

have resulted in some farmers cutting their coffee back to the stumps and planting horticultural crops instead.

5.5.2 Tea production and marketing

Compared to the coffee sector, the tea industry has been relatively stable during the 1990s. One tentative explanation for this is that tea is grown in Western as well as Central Kenya and that it is a crop that is therefore important to Moi both personally – he has a tea estate – and politically. Smallholder tea farmers deliver their picked tea to the Kenya Tea Development Authority (KTDA) at local collection points – tea-buying centres. This is then transported to the nearest tea factory for processing and sold into the international market via the KTDA tea auctions. In 2000 the Kenya Tea Development Agency took over the assets of the parastatals Kenya Tea Development Authority, and its shareholders are now the 45 tea factories in the country. Smallholder tea farmers own the factories. The factories are now run through management contracts that delegate management and operational control to KTDA. Little therefore has changed as far as farmers are concerned, but the factories now have more leverage over KTDA that in the past.

Unlike coffee co-operatives, the KTDA has not developed financial services for farmers. Since tea picking is a year-round activity, farmers receive a monthly payment of around six shillings per kilo of picked tea delivered. In November they receive a bonus payment based on the actual price the factory has received for their tea, net of costs incurred. It is because of the lack of financial services provided through this marketing structure that tea farmers have started to form their own SACCOs during the 1990s. This is discussed further in Chapter Six below.

their coffee from TCM. As yet there are no clear analyses of these dynamics and key informants accounts were insufficiently consistent to venture an assessment here.

5.6 Conclusion

This chapter has offered a context for the analysis of real financial markets by providing an overview of livelihoods in Mathira and reviewing those elements of social relations and political economy that demonstrate persistence and pervasiveness in historical processes of power and accumulation.

First, in reviewing the historical and anthropological background to the Kikuyu and Mau Mau, the nature of two social institutions– *mbari* and *riika* – were explained. Land access and control is based in lineage systems and these are key to the use of land as collateral, as will be examined further in Chapter Eight. Claims to land through lineage relations were prioritised after the closure of the land frontier and this resulted in the erosion of subsidiary claims. While Mau Mau must be understood as rooted in a conflict over land, this account has also reviewed Lonsdale's interpretation that it contained an inner debate about the Kikuyu moral economy. He suggests that the debate centred on the relationship between private ambition and public roles, since the latter required a social basis.

This dynamic of relations between land or material wealth and the social basis of claims is reflected in broader analyses of African social relations, which emphasise the role of networks based on ethnicity, kin and other social ties on access to wealth and processes of accumulation – especially patronage opportunities. In Kenya, the explosion of self-help activities after independence - of which co-operatives were part –exemplifies these processes. Hence self-help forms of service provision - such as SACCOs – are embedded in these social relations.

The overview of livelihoods in Mathira demonstrates the reliance on smallholder agriculture in the rural areas, and particularly on tea and coffee as cash crops. Data on land ownership also demonstrates the ongoing importance of lineage relationships for land holding with 81% of households having access to land through family relationships but only 39% owning a title deed.

Placing Mathira and the Kikuyu in the wider context of recent economic and political developments, makes it apparent that social relations underlying the political economy of

Kenya since independence have been more starkly evident in the 1990s. With the move to a system of multi-party politics, Moi's position as President has required that he keep together an alliance of politicians with origins in minority ethnic groups in opposition to the Kikuyu. While elite politics has been characterised by the patronage of the state, the 1990s have required added resources as political liberalisation has given politicians more room for manoeuvre.

In the light of these political economy developments, the formal financial sector has been reviewed in order to explain the background to some of the financial service providers operating in Karatina. The creation of nationally owned banks with the intention to serve African agriculture and business was a response to the perceived embedded bias of British-owned banks in serving the interests of white settlers and colonial trade. Those with strong commercial interests, especially the Asians and the Kikuyu, led the growth of NBFIs in the late 1970s and early 1980s. Some are overtly discussed as 'political banks' having prominent politicians who were able to ensure large-scale deposits from government institutions. The banking crises that centred on the NBFIs in 1980s and 1990s are partly a symptom of their use for political patronage. By the 1990s, this pattern had spread to the main commercial banking sector and led to serious levels of non-performing loans in NBK and KCB. The pattern of performance of the key financial parastatal serving the rural sector, the AFC, can be similarly interpreted in political economy terms with loans and their non-payment being a means of patronage.

Finally, the structure of the coffee and tea industries was reviewed because of their importance to livelihoods in Mathira. The co-operative system has also been undergoing a process of liberalisation and changing patronage relations during the 1990s, with the gradual relaxation of the role of the Ministry allowing new competition for roles and resources. This has resulted in the transition from Union Banking Sections to SACCOs in the coffee sector that is discussed further in Chapter Nine. By comparison the tea industry has remained relatively stable.

This chapter has sought to identify dynamics of social relations that can be seen to have had a pervasive and persistent influence on access to resources. A key feature of this political economy is the complex way in which public and political legitimacy requires strategies of inclusion based on social relations and identity in order to gain access to wider circuits of accumulation and state patronage.

Chapter 6 Financial Intermediaries in Mathira

The methodology outlined in Chapter Four explained the need to examine both the supply and demand sides of financial markets as evidenced through patterns of provision and use of financial services. This Chapter therefore describes how the supply side in Mathira is organised. The following chapter then examines the use of financial services from the demand side and investigates how these are embedded in social relations.

The first section of this chapter therefore describes the rich variety of financial intermediaries in Mathira, the types and numbers of intermediaries, the values of deposits and loans involved and the number of people using them, the products they offer and an account of the ways in which they have been competing. The second section then goes on to examine prices and profitability.

As a result of this description and analysis, the relevance of the conceptual framework presented in Chapter Two can begin to be assessed. The framework emphasised the importance of the form of the intermediary and the rules, monitoring and enforcement mechanisms necessary for intermediation. It was argued that these differences have clear implications for the nature of the products intermediaries can offer and their pricing and profitability. The evidence presented in this chapter enables these differences in products, pricing and profitability to be evaluated.

6.1 An overview of financial intermediaries

Mathira has an array of financial intermediaries spanning both the 'formal' and 'informal' sectors. The survey presented below uses the categorisation developed in Chapter Two. Data was collected from 32 intermediaries. First, the banks, building societies and NBFIs are described, followed by the parastatals, SACCOs and microfinance organisations. Next, the 'informal' sector, ROSCAs, ASCAs, insurance groups and money lending are explained, but data on membership and values of funds intermediated for these could not be collected in the same way. During the fieldwork, trade credit arrangements were investigated but not found to be sufficiently frequent to merit further exploration. Hire purchase arrangements for consumer durables operated in some local branches of Nairobi based shops but these were also not common.

6.1.1 Banks, NBFIs and Building Societies

Banks dominate in terms of their overall share of the value of funds mobilised and lent. Table 6.1[28] shows that the banks accounted for 73% of deposits by value, 55% of outstanding loans by value and 24% of the number of savings accounts. It is Karatina's past vibrancy as a market centre that has attracted a variety of formal financial intermediaries to the town and four of the five main national banks now operate there: Barclays, Kenya Commercial, National Bank and Co-operative Bank. Standard Chartered closed its branch in 1995. The NBFIs and building society, while dealing with a much smaller proportion of deposits by value (7%) and loans by value (9%) (though data was incomplete and estimates were made), held 25% of the number of savings accounts. This large number of savings accounts with low amounts by value is mainly due to the Equity Building Society, which targeted small savers. The NBFIs were Consolidated Finance and the Housing Finance Corporation of Kenya (HCFK) based in Nyeri. The intermediaries are discussed in turn.

During the late 1990s the international banks, Standard and Barclays, restructured their operations, resulting in Standard's closure and the Barclays branch becoming a sub-branch of Nyeri. Two main factors were driving these moves. First, banks were more clearly defining their market segments to concentrate on the corporate sector and on "high net-worth" individuals within the personal banking sector. Karatina lacks such a customer profile. Second, macro-economic conditions of the mid-1990s were characterised by high

[28] The data is presented by type of financial intermediary rather than by individual organisation to preserve the confidentiality of data obtained. This required the amalgamation of NBFIs and building societies into one category as there was only one building society.

and volatile treasury bill rates which were the primary influence on commercial bank rates and which meant that people were depositing and not borrowing, leaving a high net interest expense.

The main way in which this move to market segmentation has affected customers has been through the raising of minimum balances on deposit accounts. The minimum balance is that which is required to avoid incurring administration charges (a fixed monthly fee per account) and an even higher balance is required to earn interest. As minimum balances increased, more account holders were in a situation where they could see charges cutting into their savings and this provoked much resentment. Customers are not individually informed about this, they find out when they visit the branch or see an announcement in the newspapers. If they are unaware of this procedure they can return months later to find their savings considerably eroded.

When Standard first raised minimum balances in 1993, Barclays responded by lowering theirs and attracting Standard's customers. This led Standard to reverse the move. When Standard raised its minimum balances again in 1999, Barclays followed suit and other main commercial banks followed during 2000. However, Barclays experienced a lot of bad publicity since, as a bigger player in the market than Standard, this meant that a range of middle income professionals such as teachers, nurses and civil servants could no longer afford to maintain accounts there. By 2001 the minimum balance issue had turned from a race upwards to a race downwards – with Barclays re-designing its approach and most other banks (except Standard) lowering the balance considerably. By this time, the banks had sacrificed much customer good will and confirmed a reputation of being arrogant and unresponsive to customers needs.

Table 6.1: Value of outstanding loans and deposits for financial intermediaries in Karatina, Kenya 1998[1]

(Kshs'000s)	No. of orgs	Deposits (by value)	*% of total*	Members/ No. Of savings accs[2]	*% of total*	Loans (by value)	*%of total*	Number of loans	Average loan size	Loan-deposit%
Formal sector:										
Banks	4	1,148,593	*73*	24,543	*24*	429,995	*55*	n/a	n/a	37
NBFIs & Building societies[3]	3	113,973	*7*	25,663	*25*	70,995	*9*	n/a	n/a	62
Parastatals[4]	4	0		0	*0*	29,961	*4*	232	129	n/a
Sub-total	*11*	*1,262,566*	*80*	*50,206*	*49*	*530,951*	*68*			*42*
SACCOs:										
Cash-crop SACCOs	3	168,449	*11*	37,283	*36*	53,495	*7*	6,255	9	32
Employee SACCOs	5	90,150	*6*	2,277	*2*	80,117	*10*	1,888	42	89
Transport/Business SACCOs	6	12,560	*1*	396	*0*	11,448	*1*	164	70	91
Sub-total	*14*	*271,159*	*17*	*39,956*	*39*	*145,060*	*18*	*8,307*	*17*	*53*
MFO sector:										
Mainstream MFOs[5]	4	18,629	*1*	1,958	*2*	28,411	*4*	1,387	20	153
Management service MFOs[6]	3	43,184	*3*	10,329	*10*	82,050	*10*	7,230	11	190
Sub-total	*7*	*61,813*	*4*	*12,287*	*12*	*110,461*	*14*	*8,617*	*13*	*179*
TOTAL	**32**	**1,576,909**	***101***	**102,449**	***100***	**786,471**	***100***			**50**

Notes:
1. Data was collected for deposits and loans outstanding at the end of the last financial year for which the organisation could give information.
2. This data aggregates the numbers of accounts in each intermediary; users may of course have accounts in more than one intermediary.
3. Data for these institutions is incomplete and some estimates have been included.
4. Data for Post Office Savings was not available, as balances are not held at a branch level.
5. Mainstream MFO's deposits are in the main mobilised by the MFO but deposited in the bank so are excluded from total deposits
6. This total has been estimated based on averages from a sample of groups of one of the organisations.

On the lending side both Standard and Barclays attempted to develop products for unsecured lending to the personal sector for the high net-worth individuals whom they target. When these products were first introduced by one of the banks they failed because the credit scoring system for assessing applications was known to the branch staff, who then adjusted applications and advised customers in order to maximise their chance of success. These products were reintroduced using online loan assessment systems that enable the scoring system to be kept secret. As one bank official put it "there is no humanity facing that market" [053, SAM]. Another explained that the purpose of these procedures was to ensure a standardised level of service across all branches in the country so that "it is not dependent on knowing the manager" [059,UIK]. He explained that "...scoring is very depersonalised and customers are not used to that...they feel we are being impersonal and don't want to listen...the form can't say everything" so that while there had been a degree of customer resistance he felt that "customers are now starting to understand" [059,UIK; 076,UIK].

Due to the crises at KCB and National in 1998 and 1999 there was hardly any new lending activity going on at the time of the survey. KCB is able to attract accounts because of its profile as a bank backed by the government and the extent of its branch network throughout the country. But in Karatina it is Equity Building Society in particular that has been gaining customers, in part due to the fact that it has maintained a low and stable minimum balance.

The Co-operative Bank has an historically specific position in the market. Set up as banker to the co-operative sector and owned by it, it is registered under both the Banking and Co-operatives Acts. There has never been a restriction as to where co-operatives could bank but with the liberalisation of the Co-operative Act in 1997, the bank is more aware that the co-operatives are likely to start shopping around. It has therefore started to seek a more active role in the personal and business sectors. As banker to savings and credit co-operatives (SACCOs) it has done a significant amount of work in assisting their development, especially through the establishment of their basic banking services (so called "front office services") for non-members (see below). This means that the Co-operative Bank does not see these providers as competition for personal customers but rather as a means of taking pressure off their own banking hall services. This is one of the clearest instances of financial layering at work. In seeking out new business opportunities, it started a scheme for lending to small and micro businesses with donor technical assistance though the funds are the bank's own. This was targeted at customers who often borrow from microfinance organisations but offered individual rather than group loans. A bank manager in Karatina believed that the small business loans they offered were attracting savings accounts (as this is a condition for getting a loan) and increasing its market share since he thought that customers would move their account if they could see the prospect of getting a loan.

Equity Building Society is incorporated under the Building Societies Act. It is owned and managed by Kikuyus having originated in Muranga in the early 1980s and to date only operates branches in Nairobi and Central Province. It faced closure in 1991 when it did not meet liquidity requirements and, according to the CBK, depositors' funds were being used to meet operating expenses and shareholders funds had been fully eroded. Recognising that building societies were a "borrowed concept" [226,IGW] it set about restructuring its operations and defining itself as serving a low-income customer base. It received some donor funds for lending from the EU and has also received support for computerising and upgrading its management information systems.

Equity's basic services are virtually indistinguishable from those of a bank although it is not able to offer chequebooks for its current accounts because it is outside the clearing system. It has become a very aggressive player in Karatina. Not only has the manager taken a very personal approach to recruiting customers by going out to tea and coffee factories, local institutions such as schools and so on, but he maintains an open door policy if people want to see him without an appointment. This approach is very much appreciated by customers in a culture where being listened to is important, even if the answer is "no" and is a huge contrast with the other banks where getting an appointment to see the manager was extremely difficult. A related means through which he recruited business in the low economic climate was to offer advances against salaries and tea payments, and this is apparently acceptable due to a number of amendments to the the Building Societies Act (Planet Rating, 2001). By moving into the tea farmer market, Equity presented significant competition to Mathira Tea Growers SACCO (see below).

Two NBFIs were surveyed. First, Consolidated Finance, which had emerged from bank failures of the early 1990s, was only operating deposit accounts in 1999 and had closed by the end of 2000. Also relevant is the Housing Finance Corporation of Kenya (HFCK), which has a branch in Nyeri. It was included in our research because it was the only formal sector intermediary that had a branch in Nyeri but not in Karatina. It has a small remaining shareholding by government but is now a public company with a 30% shareholding by CDC. It offers deposit accounts and provides long-term housing loans. It had some borrowers in the Karatina area who were mainly salaried professionals such as teachers.

This evidence suggests that the banks are major players in terms of the value of deposits that they mobilise and lend, and that they serve a significant proportion of users. However, the two internationally owned banks have made deliberate attempts to target their services towards the corporate sector and higher-income earners - both on the savings side by raising minimum balances, and with unsecured lending products. This has resulted in the closure and downgrading of their branches in Karatina. The nationally owned banks followed the trend on minimum balances, and KCB and NBK have been limited in their new lending due to their bad debt problems. In this context, the Kikuyu owned building society Equity has stood out locally as particularly dynamic in seeking the business of the small savers and borrowers who are most abundant in Karatina.

6.1.2 Parastatals

Financial intermediaries under government origin or ownership are the PostBank, Agriculture Finance Corporation (AFC), Industrial and Commercial Development Corporation (ICDC), Kenya Industrial Estates (KIE) and Joint Loans Board run by the Ministry of Trade and the Local Authority. Data on savings mobilised by PostBank was not available, but parastatal lenders accounted for approximately 4% of loan value outstanding (Table 6.1).

The PostBank is a Government owned savings bank that has separated from the Post Office in 1978. It exists to mobilise funds for investment in Government paper thus giving a 100% guarantee on deposits. It has a variety of savings products in the branch in Nyeri, but in Karatina the Post Office provides the service and this means it is limited to a basic savings account. PostBank savings accounts allow deposit and withdrawal at any PO in the country, an aspect of the service that make these accounts particularly useful for people on the move. By comparison, withdrawing funds from a bank branch other than one's own can be slow and costly.

The Karatina branch of the AFC was closed in 1999 and transferred to Nyeri. The Nyeri office is a large echoing building with 24 staff with little to do, as it has no funds to lend. The Karatina branch had not made a new loan since 1997 when it made 30 small piggery project loans and the outstanding loan portfolio is very small.

Government-backed loan provision to industry and commerce is via three routes that are targeted at different segments of the market. The ICDC in Nyeri has a small program of commercial loans (Kshs200k to 1m) and a very small number of clients (3) in Karatina. Second, Kenya Industrial Estates started life as a subsidiary of ICDC to help develop medium scale industry. It established its programme for the informal sector in 1988 (Buckley, 1996) and is still Government owned. It offers loans of Kshs300-500k on an individual basis and for which collateral is required. It had a portfolio of about 75 loans outstanding and, in Karatina, regards its main competitors as the NGO-based microfinance organisations. Third, the Joint Loans Board (JLB) is a practically moribund organisation for providing loans to micro-entrepreneurs. The fund does not revolve as there are few resources to follow up default and repayment is predictably low. The inflow of new funds from the Ministry and Local Authority is minimal. The last time the board met to allocate loans in 1997 it lent Kshs3.8m in 104 loans, an average of Kshs36,000 per loan.

In terms of lending, parastatals are of little importance in Karatina. Data for PostBank was not available. It will be therefore be necessary to further assess the importance of parastatals from the perspective of users in Chapter Six.

6.1.3 Savings and Credit Co-operatives

The SACCO sector accounted for 40% of savings accounts by number, 17% of deposits by value and 18% of loans by outstanding value. In terms of the number of savings accounts it is clearly dealing with a significant proportion of the market, and compares well with the 49% of deposit accounts held by the banks, building societies and NFBIs. This profile of a large number of accounts but with low values suggests that this sector is particularly important to small-scale savers and borrowers.

SACCOs in Kenya are called 'rural' or 'urban'. The urban SACCOs are mainly those that are employee-based SACCOs, while 'rural' refers to SACCOs mainly linked to agriculture. Here, to ensure clarity, they are referred to on the basis of the common bond that they use and three categories can be identified: those based on cash crops; those based on employment; and a new and growing set of SACCOs based on business and especially the transport sector.

Cash crop SACCOs

Cash crop SACCOs dominate the SACCO sector in Mathira, with 11% of deposits by value and 36% of the number of savings accounts. This is a result of the extensive production of coffee in the division and the coffee marketing system in which farmers received payments through the Union Banking Section of the District Co-operative Union (see Chapter Five).

The UBS was the key provider of credit to coffee farmers in the past. Three loan products were developed to respond to farmers needs (Hedlund, 1992). First, a medium-term loan for up to three years was to enable capital investment in farm development. Second, a short-term loan for up to 18 months and third, a welfare loan often also used for school fees. This was usually referred to as an advance as it was assessed in relation to the value of the produce that a farmer had delivered to the society but which had not yet been paid for. All loans were based on past production levels and required guarantees from other members of the primary society. Repayments were deducted from coffee payments as they were received.

It was explained in Chapter Five how the coffee marketing system has been restructured. One of the changes has been the transformation of the Union Banking Sections (UBS) into SACCOs, and the second was the 'splitting' of the Mathira Society into 13 primary societies. These changes have occurred at a time when coffee prices have been in decline. As a consequence some farmers have found ways to evade their debts, and for others, low revenue has meant that they have not been able to repay. Some did this by setting up an account in the name of another family member in a neighbouring society and selling their coffee through that society so that repayments to their loans could not be deducted through the original account.[29] The situation has also been exacerbated by instances where primary societies distributed advance payments in cash rather than paying them through farmer's UBS/SACCO accounts. This was in order to ensure that the farmers receive the money

[29] A farmer might also have decided to open an account in another society because coffee revenue was higher as this depends on the volume and quality of coffee produced in a given society and its efficiency in processing and marketing.

whatever their indebtedness to the UBS/SACCO. A third problem has been the distribution of inputs on credit. In the previously unified system, credit for inputs took account of the ability of farmers to pay. With the changes, some primary societies issued inputs on credit and sought repayment via the farmers' advances, which they control. These factors have left the UBS/SACCO in a situation in which it has high arrears on loans issued under the old system and less ability to deduct payments at source. At the time of the survey the UBS needed to clean up its balance sheet for the transition to becoming a SACCO and hence was concentrating on collecting old loans, having little basis on which to provide new credit. In the new SACCO, farmers will borrow against their shares rather than against their coffee income.

The KTDA tea marketing system has never provided tea farmers with credit facilities in the way coffee co-operatives have. The first tea SACCO was set up in the neighbouring district of Kirinyaga in the late 1980s. There are now two tea SACCOs in Mathira: Mathira Tea Grower's SACCO which was established in 1990 and started offering "front office services" from 1997; and the Nyeri District Tea Growers SACCO which opened an office in Karatina in 2001 although it had been registered and operating in the area since 1992. These two SACCOs are competing for the membership of 7000 tea farmers in the Division.

The services offered by the tea SACCOs are based on lending against savings that comprise shares and withdrawable deposits. Purchases of SACCO shares are deducted from the annual tea bonus that is paid in November (see Chapter Four) and the remains of the payment is a deposit as are the monthly tea payments. They operate three loan types. First, a long-term loan for between two to four times the value of shares with a two-year repayment period and deductions made annually from the bonus. The amount to be borrowed is also gauged in relation to the farmer's level of tea production and the loan repayment should not be more than two-thirds of the expected bonus. Emergency loans for up to Kshs10,000 and school fees loans of up to Kshs20,000 were also available and payable from the annual bonus. The linking of repayment to the annual bonus creates significant liquidity problems for Tea SACCOs. Loan availability may be limited to the early months of the year up to April and this also means that borrowers may be rationed to one and a half, or twice, their shares.

Employee SACCOs

Employee SACCOs represent 6% of deposits by value, 10% of outstanding loan value and 2% of the number of savings accounts (Table 6.1). Employee-based SACCOs may be local or national in their coverage. There are four employee SACCOs operating within medium-sized local employers such as the Town Council and local independent school and hospitals which had between 50 and 300 members each. Nyeri Teacher's SACCO caters for primary school teachers throughout the district. Large private and public sector employers, such as ministries and companies such as Securicor, usually have SACCOs for their staff. The Office of the President's "Harambee" SACCO which includes staff in the local administration, is the largest SACCO in the country. For the purposes of this study I have focused on the smaller local employee SACCOs as it was not possible to include all of the nation-wide employee-based SACCOs in the survey.

Employees save by buying shares on a monthly basis through an at-source deduction from salaries. They then borrow against their shares with guarantees against the shares of fellow members to provide collateral for the full loan amount. Repayments are then made from their salaries on a monthly basis and deducted by the employer. The loan amount is also restricted by the extent of salary deductions that the employee faces in order to ensure that the employee still has a sufficient proportion of the salary to take home. The three main loan products in this model are a 'development loan', a 'school fees' loan and an 'emergency' loan. Development loans are usually up to three times shares, payable over two or three years. School fees and emergency loans have upper limits usually in the range Kshs10,000 to 20,000 and are payable over a year.

The model generally works well and the SACCO sector has expanded as salaried jobs have expanded. In small SACCOs most of the labour input is voluntary and subsidised by the employer as is the infrastructure of offices and stationery. Committee members are often paid a 'sitting allowance' for each meeting. As they grow they usually take on professional managers. However some of the large ones such as Harambee and Nyati reportedly have serious management problems. Retrenchment of civil servants in the 1990s has also created default problems for some SACCOs.

"Front office services" have been a new development of the late 1990s. This is a facility for both members and non-members to open deposit accounts through which they can receive salaries and make deposits or withdrawals as they wish. This development responded to the need for people such as rural teachers, who were far from banks, to have a means through which to receive their salaries. This service was often provided by the UBS, which has always had "front office services" through which to pay farmers. The development of front office services has occurred with support from the technical advisory department of the Co-operative Bank but has gone almost untouched from a regulatory and supervisory point of view since there was no deposit protection for non-members at the time of the survey.

Transport and Business SACCOs

SACCOs in the transport and business sectors are a new development if currently small in scale - 1% of deposits by value, 1% of outstanding loans and less than 1% of the number of savings accounts. These have grown out of self-help associations of *matatu* owners operating on particular routes. In Karatina there were four at different stages of development. The most organised have a system where employees at the bus stage collect fares from passengers and this is immediately passed to a SACCO employee. This revenue is used to buy shares, pay fees to the association for organising the stage, and make loan repayments, the remaining revenue is kept for the owner of the vehicle.

Two business SACCOs also operate in the area. Biashara SACCO is based in the Nyeri Chamber of Commerce and its intention was to enable entrepreneurs who had difficulty getting access to bank funds to get loans. The other was initiated by a local stockbroker in which the common bond is ownership of shares in the Nairobi Stock Exchange. This SACCO enables people to borrow against the security of their shares and guaranteed by other members rather than having to sell their shares to realise cash. A feature that these two SACCOs lack in comparison to thos based on cash crops, employment and transport is the ability to deduct repayments on loans at source and their performance is correspondingly problematic.

In summary, cash crop SACCOs and especially the coffee SACCO, dominate the provision of financial services in this sector. Tea SACCOs have developed in the 1990s and, with liberalisation, tea and coffee SACCOs now see the possibility to compete for each other's members, although with low coffee prices tea farmers are the most attractive. Employee SACCOs are small in terms of their membership but provide some 10% of loans. With the development of front-office services in both employee and tea SACCOs, they are just beginning to compete with the banks for ordinary deposit accounts. SACCOs in the transport sector have also emerged in the 1990s. While this is a small sector, it is an example of self-help provision.

6.1.4 Microfinance Organisations

The microfinance sector in Mathira can be split into two. First is what we might call the 'mainstream' MFOs whose origins lie in NGOs that have had donor support. These provide 4% of loans outstanding and mobilise 1% of deposits that are banked rather than on lent since MFOs are by law not permitted to on-lend savings that they mobilise. The data in Table 6.1 indicates that they had approximately 2,000 members with around 1400 loans at the time of the survey. Members use these organisations to borrow rather than to save so that while their outreach on the savings side does not appear strong, their outreach in terms of lending is more significant. Second, is an alternative microfinance model operated by three organisations in which women form groups and on-lend their own savings to each other - essentially an ASCA – with the process being managed by the NGO. This model provides 10% of outstanding loan value, mobilises 3% of the value of deposits and deals with some 10% of the number of savings accounts.

<u>'Mainstream' MFOs</u>

There are four of these 'mainstream' MFOs: the Kenya Women Finance Trust; FAULU; the Small and Micro Enterprise Programme (SMEP) of the National Council of Churches of Kenya (NCCK); and K-REP which registered as a bank in 1999.[30] They operate very similar programmes based on the group lending microcredit model in which members must first save and when taking loans provide their savings as collateral for the loans of other members. The main product is very similar across the organisations and consists of a loan usually for 50 weeks, repayable in equal instalments with either weekly or monthly repayments. Apart from KWFT, the programmes work with both men and women.

It is only in the late 1990s that MFOs have started to compete with each other more actively. Initially they thought borrowers should only belong to a single organisation with concern that multiple membership was likely to result in over borrowing and default

[30] Because this had only just occurred at the time of the survey, it is treated here as an NGO based MFO.

(Oketch and Wachira, 1996). While they have at times sought to collaborate to crosscheck lists of borrowers, this has rarely been effective in practice. It is partly because of multiple memberships that there is a view among MFOs that Karatina's market is saturated.

MFO managed ASCAs

The model originated with an NGO called Partnership for Productivity (PFP). When donors withdrew their support for a range of activities with women's groups in 1994 PFP decided to work with those groups that had been saving and developed a model in which they assist it to manage its funds. There are now two organisations operating this model alongside PFP which were started up by ex-PFP staff: the Women's Enterprise Development Institute (WEDI) and Small Enterprise Development Institute (SEDI).

In this model, members save (called shares) and the money saved is lent out to other members. There are two types of loans: advances which are for a month but may be rolled over if the interest is paid (*gubasho*); and loans which are for any period between about five and 24 months. The advances are taken for a month and charged at 10% per month. The loans are taken for between 15 and 24 months and charged at 17% flat per year, repaid in equal monthly instalments. PFP's role is simply to manage the group's finances, in particular to manage default. For this service the MFO charges 1% per month of the value of the revolving loan fund to a maximum of Kshs2,500 per month (or roughly Kshs 100 per member). In this model the interest on loans goes back into the fund and at the end of the year a dividend is calculated and accrues to the members, usually in the form of additional shares. Groups must register with the Ministry of Culture and Social Services. The organisations have a very few men's groups but reported that they found it easier to work with women.

Approximately 10,000 women belonged to these organisations in Mathira, and this is evidence of the rapid growth of this model between 1995 and 1999. Entry costs to the business are very low as there are virtually no fixed costs: staff use public transport, offices are rented, bookkeeping systems are predominantly manual and salaries are low. Once the technology of the model is understood anyone can start up offering these services, hence the way in which ex-staff have established new organisations of their own. However, caution with the membership figures is necessary. When default in groups becomes serious, the income of the MFO starts to fall as their service fee is related to the funds available. In order to retain income the MFOs therefore form new groups and old ones tend not to be disbanded so that figures probably over-estimate the number of active clients. There are minor differences in their models and intense rivalry between them. But between them they had a total of approximately 29,000 members in July 2001, with outreach extending to Laikipia, Nanyuki, Othaya and Kerugoya. .

In the MFO sector, the managed ASCA model had approximately five times as many members as the four main MFOs, and has mobilised three times the value of deposits and made two and half times the value of outstanding loans. By comparison to mainstream MFOs it has not benefited from donor funding, and it is relatively unknown even by their local managers, who do not perceive that they are competing for the same clients. While the main MFOs tend to concentrate on people with businesses, the managed ASCA model accommodates a much wider range of female clients including employees and farmers.

6.1.5 ROSCAs and ASCAs

Mathira abounds with group based financial arrangements, called "*iteti*", a term which applies to both ROSCAs and ASCAs. Rotating Savings and Credit Associations (ROSCAs) are the most common model in which members save on a regular basis and one member takes the fund in the order in which their names are balloted.[31] This system particularly thrives in and around the open-air vegetable market where women often belong to a number of them. The oldest ROSCA we found in operation was one that started in 1976 and the ballot *(kwamba)* of members, which allocates a number in the rotation, has never been re-drawn. A more unusual feature of the operation of many of the ROSCAs in the open-air market was that in some cases members do not know each other and the group never meets. A "collector" collects the money, and as members leave, people who are introduced to the collector replace them. New members are very often put at the end of the list as it may not be known how trustworthy they are in making contributions. From this position they cannot upset the cycle by not paying once they have received their payout. There are benefits which the collector can gain from taking on this role: being first in the ballot; being able to make their own contribution on the contribution day as late as possible (important in the market if business is slow); and status in the community.

31 While there are a number of systems of allocating the fund including auctions, only ballots and allocation on the basis of need were found to be operating here.

Rurally based *gitetis* are more likely to involve a meeting of members on a weekly or monthly basis. Attendance may be compulsory depending on the by-laws. Many groups based in town also meet regularly although some members may never actually attend, instead sending their contribution via another member. Some people who save in ROSCAs may be invisible to the group because they are being "carried" by other members - called "*gukuua*" which literally means "being carried on the back". A member may take a stake in a ROSCA for which someone she knows, but whose name does not appear on the list, makes the contributions. Some groups say that they do not encourage this because it increases risks, but it is not possible to guard against it completely.

The abundance of groups that we encountered appears to imply the ease with which ROSCAs are formed and operate. Yet many ROSCAs fail and people may lose their money. When a 'stake' becomes available in one of the established ROSCAs it is often taken up by an existing member because she wants to be able to save more and because the members do not want the risk of bringing in new members.

The character of the groups can also vary in terms of the degree of strictness with which contributions have to be made with some charging fines for late contributions. Others are "patient" *(kurekera)* and if members are a day or two late with their contributions, they are not penalised if it is for a 'genuine' reason. But if this behaviour is seen as laziness the person will be pushed out of the group at the end of the cycle. It was not apparent what factors produce these differences in the character of groups.

Compared to ROSCAs, ASCAs are fewer in number. In these, members save in a fund which they lend to each other. Interest is accumulated into the fund and used to pay out a dividend. Some of these systems are time-bound with the pot being divided up and paid out at an agreed date. The funds were loaned out at between 3% and 5% per month depending on the rate agreed on by the members. The main difference between SACCOs and ASCAs is that the former are regulated and members are required to have a common bond, i.e. a basis of common interest. Other aspects are very similar: a number of the ASCAs work on the basis of giving loans as a multiple of two, three, or four times savings; they also used the shares of other members to guarantee loans. In some cases household assets were also pledged.

Due to their informality, it was not possible to estimate the numbers of ROSCAs and ASCAs or the value of funds they handle for comparison with the figures in Table 6.1.

However, many informants reported that both types of group had become increasingly popular since the mid-1990s.

6.1.6 Insurance groups

A further group-based system that operates at village level is a system of mutual aid or insurance groups. Members are usually households whose head comes from the same *mbari* (sub-clan). Members contribute a set amount on the death of a member and the groups are usually between 100 households and up to about 300 households. It is the household head's responsibility to contribute, and single mothers are able to join. The level of contributions is usually low and was reported to be in the region of Kshs20 to 50. These collections take place on the death of a member but may also be made to cover circumstances such as serious hospitalisation case or a house being burnt down.

Some of these groups had however shifted from ad hoc contributions in the event of a problem to regular contributions. This they explained was due to the difficult economic situation, since when problems actually arose it was often found that households did not have the funds available to contribute. Regular contributions allowed funds to be collected, put in a savings account and to be paid out when the need arose. A number of groups operating ROSCAs and ASCAs were also operating these insurance systems with some being quite sophisticated having specified levels of payout for different eventualities such as death of the member or close relative and hospitalisation. This is discussed further in Chapter Eight.

6.1.7 Moneylending

The money-lending business carried out by individuals in Karatina is relatively small. We identified and interviewed seven active moneylenders, one who had retired and one who had gone out of business. Apart from two who had clients in their villages, they mainly operated in Karatina town. The total value of their combined portfolios did not exceed Kshs1m (£8,500).

The seven active moneylenders fell into two groups. Three were employees of a security company and were relatively recent entrants to the money-lending business in Karatina. Two of these were men who lent to colleagues and people in town including to employees of the banks where they are guards, and the other was a woman employee of the same security company.[32] The other category was four elderly men who started money lending in the 1970s and 1980s. These all gave consistent accounts of the changing money-lending market in the 1990s. They reported that it was in 1997, when the economic situation deteriorated and repayment became difficult, that they started to become cautious and take collateral. However their methods differed. One preferred not to take collateral such as radios, bicycles and TVs, preferring instead to lend to employees and tea farmers against their savings book. This allowed the lender to assess what amount to lend and when the money was received in the account, the borrower had to go to find the moneylender to get the bank passbook in order to withdraw and he would get his repayment at the same time.

6.1.8 Conclusion

This survey of financial intermediaries has demonstrated that all of the forms of intermediation discussed in Chapter Two exist in Karatina. While banks dominate in terms of their shares of deposits and loans, when it comes to accounts they have only some 24% of the total number. It is one particularly dynamic Kikuyu-owned building society that results in the NBFIs having an almost similar share of accounts as it has actively pursued low-income clients. The SACCO sector, dominated by the coffee SACCO, has a much larger proportion of members than deposits and loans and this also suggests its importance for poorer people. The mainstream MFOs were also found to have a smaller market share than MFO managed ASCA programmes.

A particularly interesting feature of this survey was that most managers perceived that their competitors were the intermediaries that were most like them in terms of organisational form, hence banks looked at other banks, and mainstream MFOs looked at the performance of other MFOs when comparing their products and performance. The exception was competition between Equity Building Society and the tea SACCOs for tea farmer's accounts. This suggests that managers themselves perceived the market to be strongly segmented.

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[32] This woman did not lend against collateral as she feared that people might come and steal it from her house. She also charged 5% less per month than her male colleagues.

While data for the informal sector is not available, there is an abundance of ROSCAs and ASCAs in Mathira. Moreover, the MFO managed ASCAs demonstrate a high degree of popularity. Chapter Two categorised SACCOs, ROSCAs and ASCAs as all forms of mutually based financial intermediation. Putting the data on SACCOs and managed ASCA programmes together suggests that these involve 21% of deposits, 28% of loans and 49% of users. The implication is that mutually-based forms of finance involve more than half of financial service users, and that these mobilise and on lend between 20% and 30% of funds. But this is even before any account is taken of independent ROSCAs and ASCAs which are clearly abundant. This evidence therefore suggests that the mutual sector – both formal and informal – is an important form of financial intermediation.

A further contrast between the banks and mutuals can be seen in the loan to deposit ratios in the final column of Table 6.1. The banks had on lent 37% of their deposits locally, while NBFIs and building societies had on-lent 62%. The ratio for the whole of the SACCO sector is 53%. The low level of 32% for cash-crop SACCOs reflects the difficulties that the coffee SACCO has had in making new loans since 1997. However, for employee and transport SACCOs, these figures are at around 90%. The figure for the managed ASCA programmes is even higher at 190%. This reflects the fact that funds in ASCAs grow rapidly as high rates of interest are charged and paid into the fund, hence the fund available for lending is higher than the share capital alone. This difference in ratios is indicative of the fact that these local organisations must on-lend locally to their members whereas the banks have the option of moving deposits to other branches. Since, as one manager commented, savers are likely to put their savings where they have a chance of taking loans, this makes SACCOs and ASCAs more attractive places to save than banks.

6.2 Pricing and Profitability

This section analyses the interest rates offered by financial intermediaries on savings and loans before examining their profitability.

6.2.1 Interest rates

Interest on deposits

Ordinary savings accounts offered by banks, NBFIs and SACCO front office services[33] offer simple annual interest rates[34] of between 3% and 8% per annum. However these rates in SACCOs may often be paid retrospectively on the basis of what the SACCO can afford. Fixed deposit account returns tend to peak for 3 month periods as the financial institutions tend to invest in 3 month Government Treasury Bills (TBs). Since TBs are usually three-month investments, rates on fixed deposit accounts for 6,9 or 12 months fall off, as this relies on the banks re-investing the funds and TB rates are highly variable. ROSCAs and current accounts carry a nominal interest rate of zero.

Dividends on SACCO shares lie between 0 and 5% annually and must be invested for at least a year before shares are eligible for dividends. SACCOs that are in their first five years of operation are very unlikely to offer savers any kind of dividend during this period; indeed they may well have made losses during this period (see below). The situation was different for the coffee UBS/SACCO in the period to 1997. The UBS offered an interest rate of approximately 10% on deposits. This was a means of ensuring that savers obtained returns since the DCU might otherwise use income from the UBS to cross-subsidise other less profitable businesses, and farmers were then unlikely to receive dividends via their primary societies.

Dividends to ASCA members (MFO managed ASCAs and independent ones) ranged from 15% upwards. Since these are annual dividends it is again necessary to invest in the ASCA for at least one year. These returns may continue over time and some managed ASCAs offered dividends of over 50% on savings per annum.

The range of potential returns is therefore significant – from 0% (nominal) in current accounts and ROSCAs to 50% and above in ASCAs, with returns to SACCO shares requiring long-term investment in the SACCO.

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33 SACCOs with front office services such as Nyeri Teachers and the cash crop SACCOs offer a deposit rate on these funds which is independent of the return to shares via dividends.

34 It would be better to compare effective rates that take into account the various charges that might be incurred – as has been done for loans below. However, the differences in conditions on savings accounts and the charges they incur along with the constantly fluctuation of minimum balances over the period meant that this was hard to do, and so nominal figures are presented.

Figure 6.1: Deposit interest rates by intermediary and term

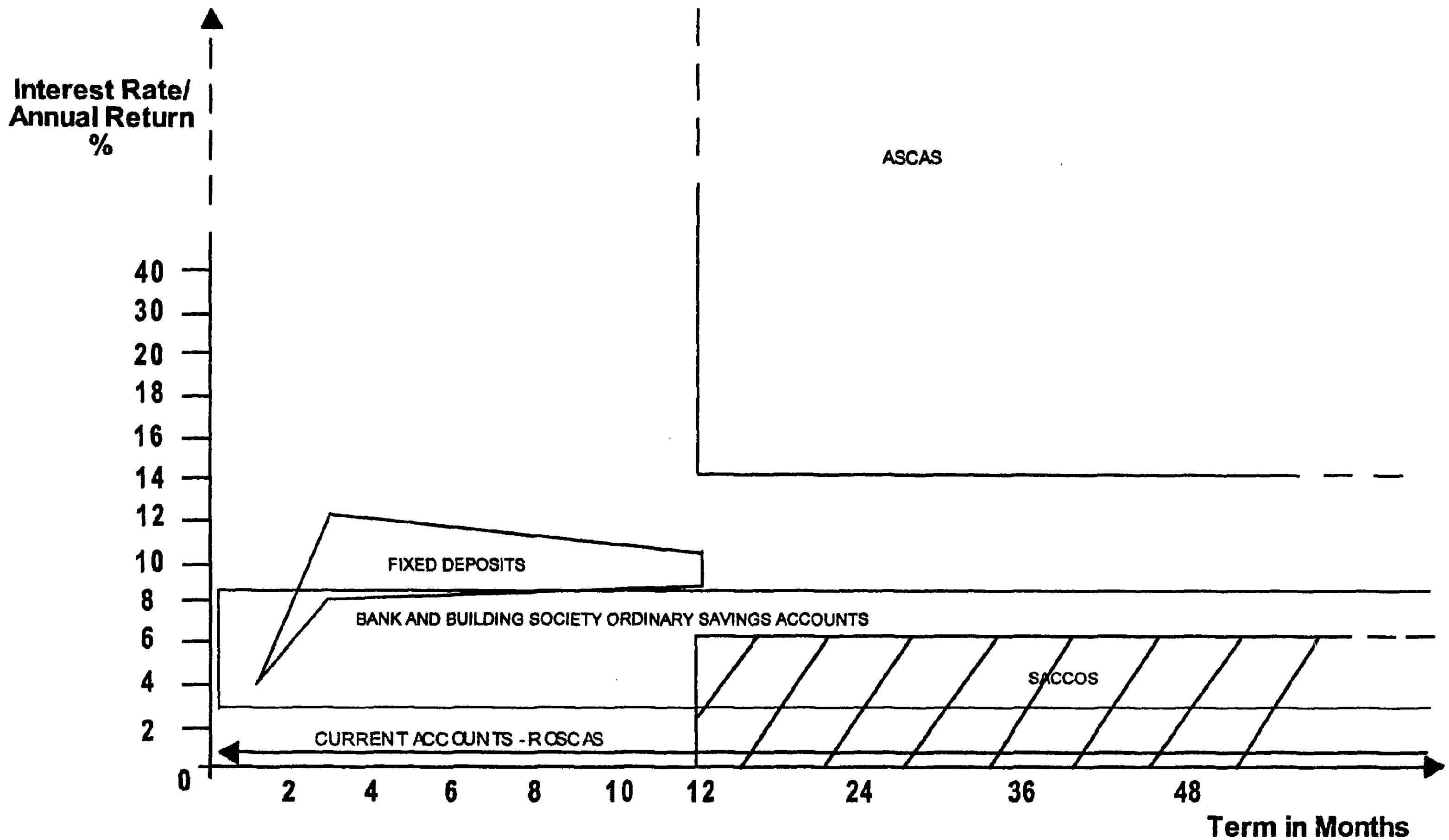
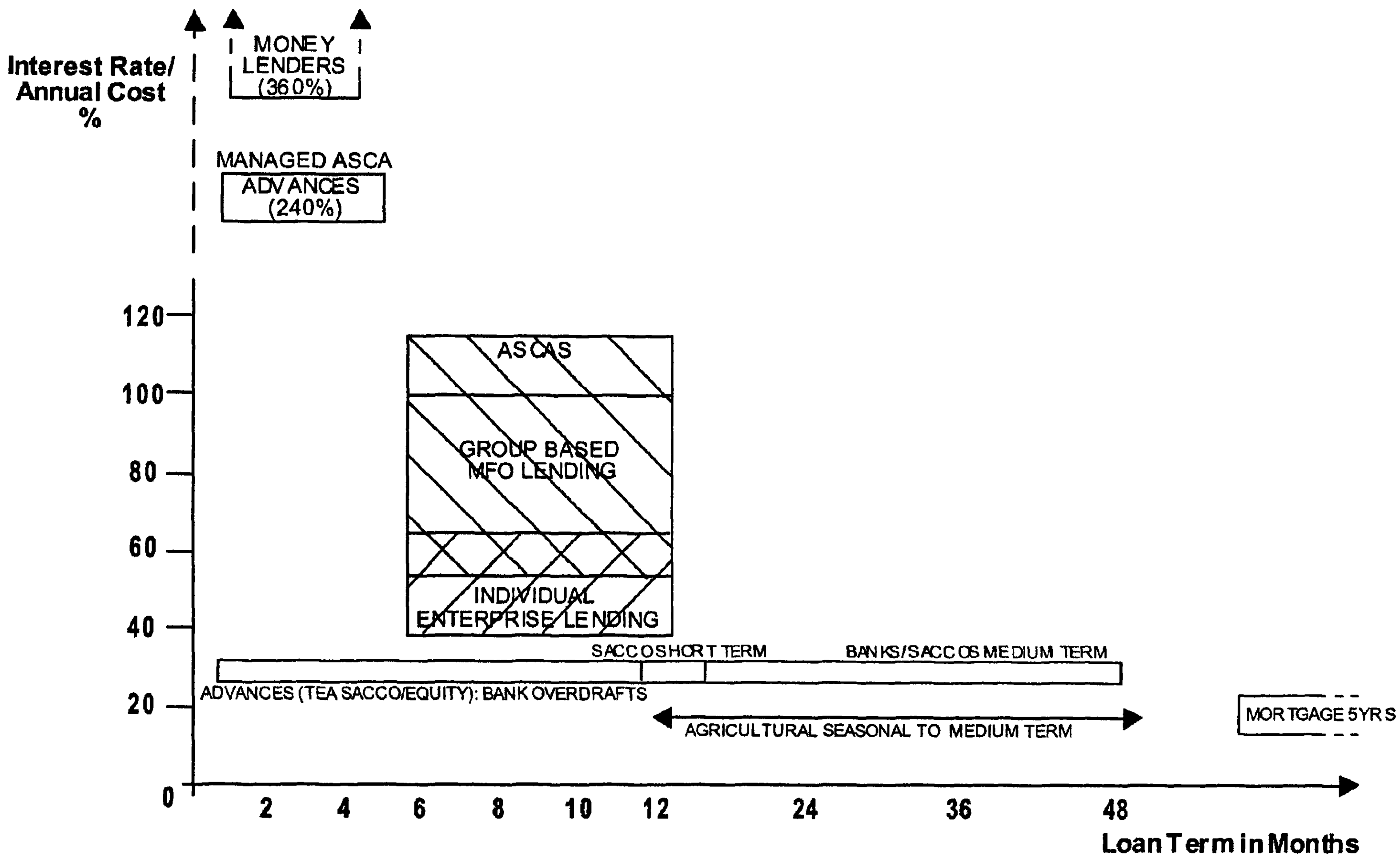


Figure 6.2: Loan interest rates by intermediary and term



Interest on loans

In order to examine the interest rates that borrowers actually pay it is necessary to calculate effective declining balance interest rates taking into account the terms and conditions of the service on offer. An internal rate of return (IRR) method has been used and the interest rate calculated for a standard loan size over one year, including all of the application and related transaction costs which the financial intermediary levies. Where members are required to hold a stock of savings or shares and/or to continue saving while repaying the loan this is also taken into the IRR calculation to establish the full financial cost of the loan to the borrower. This method therefore establishes an interest rate for the net additional liquidity gained through borrowing (see Annex Two).

Lending interest rates are schematically represented in Figure 6.2. Starting with the highest rates, moneylenders were mainly charging 30% per month (360% p.a.) and are by far the most expensive funds available. One had raised his rate from 40% to 50% in 2001 seeking to find out whether customers were "serious". Since there are no fees or compulsory savings, and collateral may or may not be required depending on the lender.

MFO managed ASCAs offer advances at a rate of 10% per month and members can borrow twice their savings. This therefore computes to 20% per month and a declining balance rate of 240% per annum. Loans for periods of between six and twelve months from either mainstream MFOs or MFO managed ASCAs offered interest rates in the region of 60 to 120%. But this is also the source of high dividends or returns to savings as noted above. Individual enterprise lending involves KIE and the Co-operative Bank's lending programme for small business and these organisations charge effective interest rates of between 40% and 62%.

Bank interest rates were between 28 and 32%[35] at the time of the research. However these effective annual rates include fees charged by the bank but do not include other fees involved e.g. in valuing and charging land which can in practice considerably raise the costs of bank borrowing. Evidence from a small number of bank borrowers who had gone through the process of charging land to the bank, suggested that the costs ranged from a nominal amount charged by Barclays (which had internalised the charging process and were at that time considering charging customers for the service), to Kshs 20-40,000 for

[35] After the first round of fieldwork, bank base rates dropped substantially and stood at 18% in late 2001. If bank margins over base are included comparable rates are now 20-25%.

loans from other banks where loans were in the range Kshs 200-400,000. These charges therefore represented in the region of 10% of the loan amount. However, even if this is included in the calculations for a loan of, for example, Kshs500,000 over three years, it does not raise the interest rate significantly.

SACCO interest rates were controlled at 12% per annum declining balance until the 1997 Co-operatives Act. Figure 6.2 demonstrates that the effective nominal interest rate on SACCO borrowing is approximately 30%. This was therefore about the same as the cost of bank borrowing once the opportunity costs of non-withdrawable shares and ongoing saving were taken into account. A small number of SACCOs had raised their rates after liberalisation but most were still charging a nominal 12% per annum. The financial costs in terms of lending fees are usually very low and the application process is very simple, requiring only a form and the signatures of guarantors. One effect of this level of interest rates is that SACCOs find it hard to borrow from banks to supplement their funds for on lending.

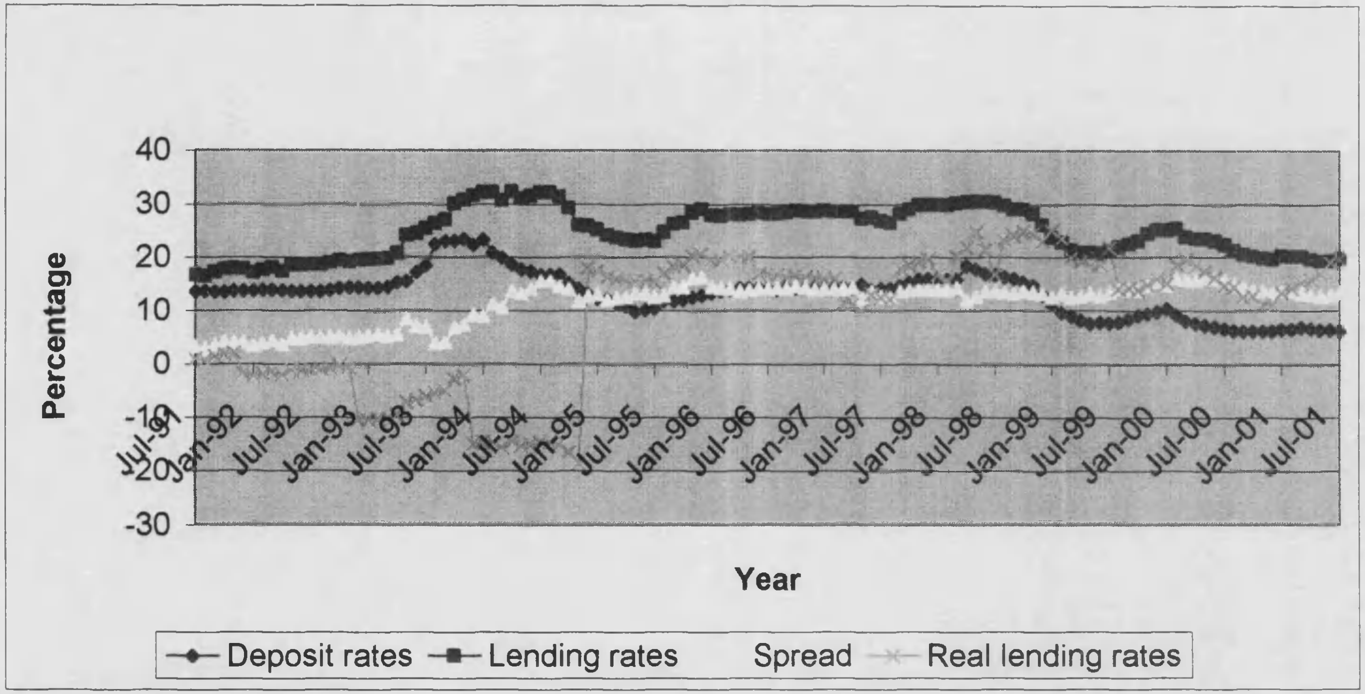
Cash crop SACCOs were charging 16-18%, and again worked on multiples of shares, which, for the local tea SACCO was two. This therefore approximately doubled the interest rate. Past loans in the coffee sector through the Union Banking Sections were on the basis of the past three years coffee payments so that at that time they were a much cheaper source of credit (since they did not involve compulsory savings). The cheapest loans potentially available were medium-term agricultural loans from AFC at 17% declining balance but, as indicated above, this source has had very few funds to lend in the 1990s.

The only source of loan funds for more than five years was mortgages from HFCK. These rates were lower than for bank loans and computed to effective annual interest rates of just under 20%.

Hence borrowing from SACCOs - especially employee SACCOs – did not carry a much lower interest rate than borrowing from banks and NBFIs once the opportunity cost of ongoing savings requirements are taken into account. This is contrary to the common perception of borrowers who perceived SACCO lending to be much cheaper because they did not take into account the opportunity cost of their savings.

An important dynamic of banking sector interest rates in the 1990s has been their level and variability. Figure 6.3 shows monthly weighted average deposit and loan rates for the 1990s. From July 1991 to July 1993, both deposit and lending rates were gently drifting upwards, but from mid-1993 they rose rapidly. From early 1994 deposit rates started to fall quickly resulting in a substantial increase in spreads. Spreads rose from approximately five per cent in the early 1990s to levels of 12% to15% from mid-1994 onwards. This increase in spreads was accompanied by increased variability in the level of lending rates that is apparent from 1993 onwards. Moreover, when examined in real terms, lending rates moved to unprecedented levels in the period 1998 to 1999 having actually been negative in the early 1990s. This was largely a result of Treasury Bill rates (Figure 6.4). With the government borrowing via TBs, the banks had the option of investing in these securely rather than the uncertainty of investing in the economy. Thus their lending rates were usually higher than TB rates. But these high and volatile rates produced added risk and uncertainty for bank borrowers.

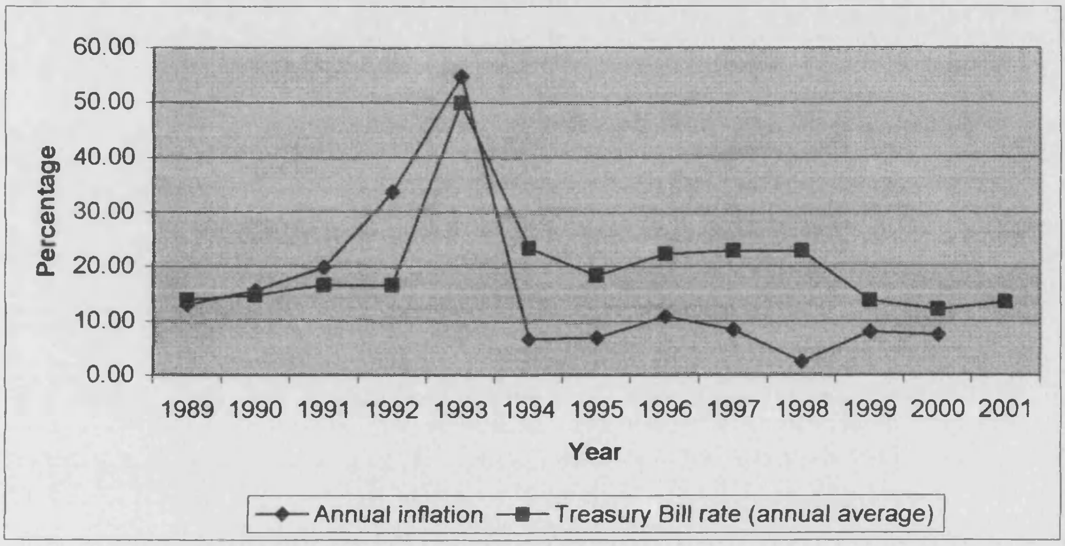
Figure 6.3: Interest rates in the Kenyan Banking Sector 1991-2000



Source: Central Bank of Kenya

By contrast SACCO rates are very sticky. Changing the interest rate in a SACCO, or an ASCA, requires that members vote at the AGM to do this. The fact that SACCOs have not, on the whole, changed their interest rates demonstrates this point. Especially in employee SACCOs where the majority of members have loans at any one time, it is unlikely that members would vote for interest rates to rise.

Figure 6.4: Treasury Bill and Inflation Rates 1989-2001



Source: International Financial Statistics (various years); Central Bank of Kenya, 2001

<u>Conclusion</u>

This analysis shows that interest rates on both the deposit and lending sides are extremely diverse and the result of different dynamics in the different intermediaries. Bank rates have been heavily influenced by the macro-economy and especially by Treasury Bill rates. SACCO rates were regulated until 1997 and since then it is mainly the cash crop SACCOs that have raised rates. In employee SACCOs members are usually debtors and unlikely to vote for a rise.

The convergence of SACCO and bank rates in this analysis is coincidental since bank rates fell soon after the survey was undertaken, to around 20%. In fact the high levels of interest rates and profits recorded by the banks precipitated a reaction in parliament when a private member's bill - the "Donde Bill" - was tabled in 2000 to limit interest rates on loans to 4% over the TB rate, and ensure that the banks paid 70% of the TB rate on deposits. The bill's passage into legislation was controversial and the means of its implementation problematic. But the important point here is that the bill represented a backlash against some of the banks in the wake of their reporting high profit levels in a context of overall poor macroeconomic performance.[36]

But the influences on interest rates clearly do not result from the regulatory environment alone. Moneylenders are unregulated and can decide what to charge. MFO lenders charge a wide range of rates and ASCA members can decide what to charge themselves. It is hard to justify these differences on the basis that the market is in any sense homogeneous. Rather, these differences do appear to be rooted in the nature of the organisations undertaking the financial intermediation. This argument is further explored in the next section where the profitability of these different organisations is examined.

6.2.2 Profitability

This section examines the profitability of the different financial intermediaries. As was discussed in Chapter Three, obtaining data on profitability for branch operations in Karatina was very difficult. The analysis here is therefore based on data available.

First, the profitability of the main banks in Kenya is examined at the aggregate level. Figure 6.5 shows trends in return on capital employed[37] (ROCE) for the period 1983 to 2000. ROCE is the ratio of profits before tax to shareholder's funds and net assets, and reflects how well both owners' and creditors' funds are being used to generate income. The figure shows highly variable returns over this period ranging from near zero returns in the mid-1980s to reasonably stable returns in the early 1990s (30-50%) with these widening hugely in the period 1993 to 1995 when Barclays earned over 100%. However the period 1995 to 2000 has seen a dramatic decline in returns with the Co-operative Bank and NBK plummeting to negative 150%, while Barclays and Standard Chartered have managed to retain positive and relatively high levels of returns.

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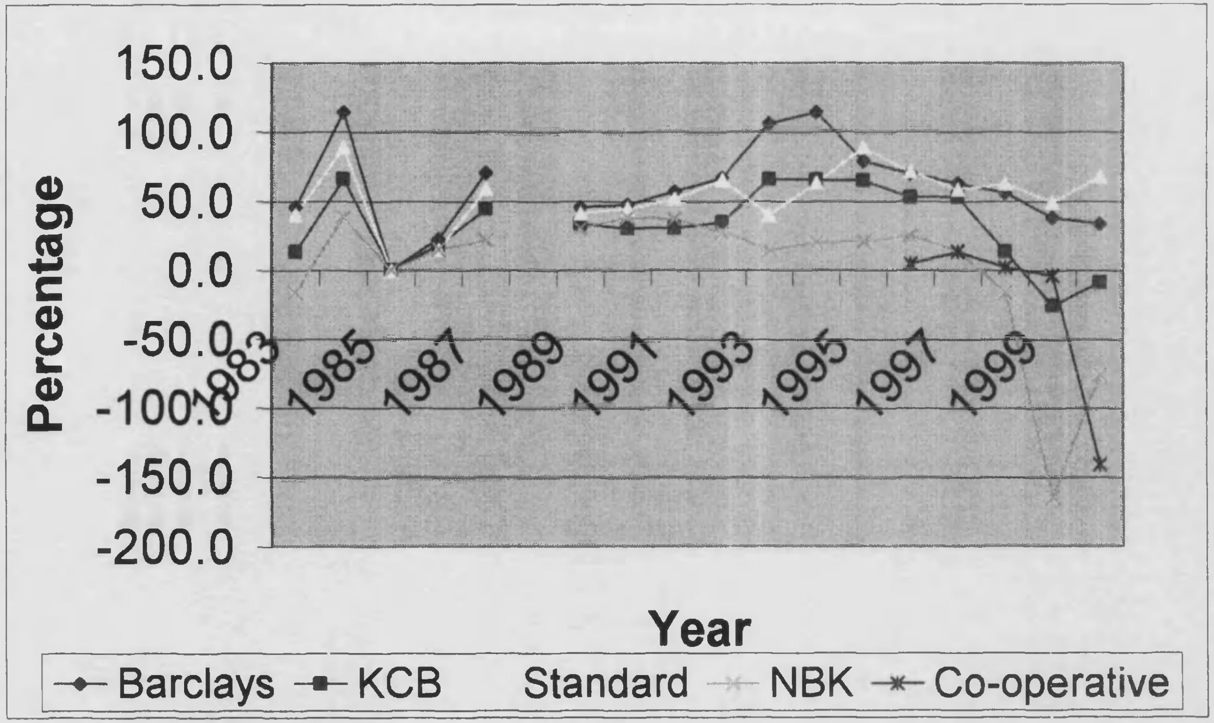
[36] A more cynical interpretation is that it represented an attempt by many politicians at self-preservation as their debts spiralled out of control.
[37] Return on total assets and return on equity were also examined, but all show very similar trends so return on capital employed was selected as the key indicator of profitability as it could be examined for other types of intermediary also.

Figure 6.5: Return on Capital Employed in Kenya's Five Main Banks



Source: Maroko Investment Advisory Services (2000); Market Intelligence (various years)

This performance can be explained by two main factors: the Treasury bill market and the heavy non-performing loan portfolios of the national banks. As was highlighted in Chapter Four, the government used treasury bills in the 1990s to fund its budget in the absence of donor funds. Since the main sources of funds to purchase them were bank deposits, the banks bought TBs on a large scale. The returns on TBs between 1995 and 1998 were secure and high, since deposit rates remained low and banks were not competing on deposit rates for customer's funds, (see Figure 6.5). This was therefore an easy means of making profits without the risk of investing in an increasingly uncertain economy.

It was to a large extent the high TB rates that resulted in the high levels of profits earned by Barclays and KCB in the period 1993-5. By the late 1990s TB rates started to fall, but the internationally owned banks were able to maintain their returns because of their well-established lending to the multinational business sector. A senior banker did admit that bank failures had also weakened competition and that they had seized the opportunity for increased profits in the mid-1990s. According to him there has subsequently been increased market segmentation for corporate and high worth personal customers, which has reduced their ability to cross-subsidise other aspects of their business (OG,234). Moreover, national subsidiaries of internationally owned banks have to satisfy the return requirements of the parent group, which necessarily requires the targeting of the most profitable segments. While the nationally owned banks also suffered a decline in returns from TBs, their underlying problems were much worse as a result of their non-performing loan portfolios, which for KCB, NBK and Co-operative Bank[38] started to rise dramatically (Table 6.2). The causes of this were explained in Chapter Four.

Table 6.2: Non-Performing Loans in the Banking Sector

	Total NPL/Total Advances (%)			
	1997	1998	1999	2000
Barclays	4.34	9.29	9.55	9.24
KCB	7.96	16.8	34.29	42.18
Standard	19	23.96	15.06	14.88
NBK	0	56.03	68.27	70.21
Co-operative	0	8	34.65	48.64

[38] The problems at Co-operative were not a result of mismanagement and political influence. Their portfolio - which is heavily agricultural via the co-operatives - suffered from variable weather conditions which brought excess rains in 1997 followed by drought, and the bombing of the American Embassy in Nairobi in 1999 when their officers were also severely affected.

By contrast the profitability of the SACCO sector is subject to an entirely different set of influences. As was pointed out in Chapter Two, the dividends on shares in the SACCO sector do not represent a return on equity in the same way as a bank. Rather dividends are returns on savings and are usually calculated at the end of the year. These dividend rates were compared with bank deposit rates in Figure 6.1. In order therefore to present comparable data, the return on capital employed has also been calculated for the small number of local SACCOs for which data was available and this is presented in Table 6.3.

Table 6.3: Return on Capital Employed[39] in Local SACCOs (%)

	1997	1998	1999	2000
Wikio		3.1	5.7	
Mt Kenya Investors	-2.1	-3.0	-1.9	
MRM	-3.5	-0.4	-0.5	
2NK	-1.8	2.8	2.7	
Nyeri Teachers				5.15*
Mean	-2.5	0.6	1.5	

* - Nyeri Teachers offers a retrospective fixed rate on all deposits that has been included in this calculation.

The pattern of returns in Mt Kenya Investors, MRM and 2NK appears to be common to small SACCOs in their first few years of operation. None of the first four SACCOs in the table has more than 200 members. These small SACCOs operate on high levels of voluntary inputs of labour and resources to get them going. In the case of employee SACCOs, the employer usually indirectly supports overheads. For example, Wikio SACCO for the 142 employees of Karatina Town Council, benefits from skilled employees such as accountants who manage the SACCO; deductions are made from salaries at source and it does not need to rent offices, pay for utilities and so on. This SACCO consistently makes positive nominal returns and has paid out dividends of between 2% and 5% to shareholders in the period since 1991. By contrast the transport SACCOs (MRM and 2NK) are struggling to develop a viable infrastructure since they must rent offices and employ staff at the bus stage. Nevertheless Committee members provide a lot of voluntary input at the early stages and costs are kept as low as possible. In that they can make deductions at the stage, transport SACCOs have greater prospects for success than a SACCO such as Mt Kenya Investors that has to rely on members to repay loans by coming to the office. Members of small SACCOs are prepared to withstand losses in the short term in view of the anticipated benefits of taking loans in the future. Losses made may be

[39] The ROCE calculated here is based on earning over end year capital employed rather than on average capital for the year. This would in general result in a slight understatement of returns since capital is generally increasing year on year.

recovered in subsequent years and once these are covered dividends may be paid out. The Nyeri Teacher's SACCO on the other hand, is much bigger. With 6,700 members in Nyeri District overall, it has been operating since 1976 and has 17 staff. While the returns of Wikio and Nyeri Teachers are low compared to the banking sector, these also reflect a return on shares of approximately 5-6% which is roughly equivalent to bank deposit rates.

For the cash crop SACCOs there are sufficient volumes of funds involved that they can afford offices and staff but the data to analyse their returns was not available. However, returns to share capital are also usually negative in the early years of operation before becoming low and stable.

For the parastatal sector, the accounts for AFC were not available, however some secondary data was available for the early 1990s. The high levels of default were noted in Chapter Four. Otima reports that between 1984 and 1990 operating costs stood at 13.34% of portfolio outstanding comprising 7.14% cost of funds and 6.2% cost of loan administration. Excluding the cost of default and considering only interest charges, AFC was operating at a loss of 1.5% since the weighted average lending rate stood at 11.84% (Otima, 1994). This situation is unlikely to have improved in the late 1990s, as the collection rate remained low, and AFC was unable to raise new funds for lending.

In the MFO sector, only K-REP has become a commercially viable operation. It turned itself into a Bank in 1999 and was registering a 2.7% return on capital employed in 2000 (Market Intelligence, 2001). However at the same time, shareholder funds stood at 189% of total deposits reflecting the high level of minimum core capital that K-REP required to register as a bank and the relatively low levels of deposits that it had by then mobilised.

None of the other main MFOs were commercially viable but were supported by donor funds. However their operations in the Karatina area are of differing degrees of profitability. Faulu, K-REP and KWFT reported that their branches in the Mt Kenya region were cost covering. In most cases this transition to local level profitability had occurred in the previous two years, and these branches were helping to cross-subsidise operations in other parts of the country.

Return on invested funds, see Table 6.4, is the available indicator that is most closely comparable to return on capital employed. This shows negative returns although they are reducing over the period. Overall these figures reflect the origins of MFOs as donor funded organisations and whether they can become commercially viable is still unanswered. However, it is clear that the costs of these organisations are higher than SACCOs and MFOs managing ASCAs, and this helps explain the levels of interest rates that these organisations charge.

Table 6.4: Profitability and Sustainability of Two Kenyan MFOs

Indicator	KWFT		FAULU	
	1997-8	1998-9	1998	1999 (August)
Operating self-sufficiency	73%	77%	75%	85%
Financial Self-sufficiency	57%	64%	62%	74%
Sustainable Return on Equity	-19.7%	-11.2%	-25.4%	-15.6%
Loan income/Total operating costs	67%	85%	63%	86%

Source: DFID-BPED Output to Purpose Reviews November 1999

Data for rates of return on ASCAs is very difficult to obtain. One independent ASCA called the Microenterprise Development Association (MEDA) and run by a group of businessmen in Karatina, operated by funding operational costs directly from member's contributions. For example, the rent for the room where they met was raised from all the members when it was due. Thus no costs were deducted from the loan fund for operational expenses. At the end of 2000, the return on shares distributed to members was 9%. While this figure is effectively an interest rate on shares, it is also virtually equivalent to a return on capital employed. However, similarly to the small SACCOs, dividends had not been paid in earlier years. However, if there is no default (as in fact there had not been), the organisation cannot operate at a loss.

The profitability of money lending operations is extremely difficult to assess. Although we monitored the portfolio of three moneylenders over a period of four to five months the ways they were operating their businesses were very different and made it difficult to be confident about conclusions that might be drawn from an analysis of the data. It was clear that the portfolio of one was in a very poor state and it is likely that it was our interview with him that made him realise this. He had many radios and bicycles at his house but did not want to sell any of them until he had met with the borrower and agreed this. The following month he had stopped giving loans and was concentrating on collection. Another moneylender experienced serious default in 2000 and pursued the debtors through the courts, as they were large loans. The debtors spent time in civil jail but at the end of 2001, they had still not paid him.

To conclude, the implications of this analysis of profitability are, first, that returns to different types of financial intermediary are quite different and determined by very different influences. It is clear that returns in the banking sector tend to move in the same direction and be subject to similar influences. Returns have varied from positive figures of over 100% for Barclays in the mid-1990s to negative returns for other banks in the late 1990s. The influences on these returns have been strongly related to the macro-economic and wider political environments.

By contrast, the SACCO sector, especially local SACCOs operate at low levels of ROCE. In general they present losses in the early years of their operation but stabilise over time and then generally produce returns that are low and stable but negative in real terms. ASCAs on the other hand appear to produce higher returns than SACCOs, since they are equivalent to the dividend on shares. The AFC, by contrast, has become moribund due to its inability to raise interest rates without government agreement, its chronic default problems and its lack of funds for re-structuring. It cannot be liquidated either under the banking or companies act but must be specifically dealt with by government. It has therefore remained in existence but is an insignificant player.

MFOs have been a feature of donor-funded finance in the 1990s, reflecting the shift of donor support from government, and in this case parastatal lenders, to the NGO sector. Only K-REP had become self-reliant and it is not yet clear whether the other MFOs will achieve this, though they are under heavy pressure from donors to do so.

6.3 Conclusion

This chapter set out to describe the way in which financial intermediation in Mathira is organised and to assess the relevance to its analysis of the conceptual framework set out in Chapter Two. A wide array of financial intermediaries has been reviewed and some of the influences affecting their operation, pricing and profitability have been discussed.

First, the data on deposits and loans outstanding by value suggests that banks dominated but held only 24% of the number of accounts. The dynamic Kikuyu-owned Equity building society had a large number of accounts although this sector of the market mobilises fewer deposits. However, the evidence particularly demonstrates the importance of the mutual sector. The data on SACCOs and managed ASCA programmes showed that these accounted for 21% of deposits, 28% of loans and 49% of accounts - also suggesting that their customers tend to be those with small amounts to save. However this data does not capture the informal mutuals – the ROSCAs and ASCAs - whose abundance suggests that this sector is likely to be more important in terms of outreach than the evidence presented here suggests. MFOs were found to represent a small proportion of lending and accounts.

Despite the dominance of the banking sector in deposit mobilisation, the data suggests that it performs relatively poorly in terms of the proportion of its deposits lent locally. This is especially the case in comparison to managed ASCAs and SACCOs which lend higher proportions of their subscribed funds since profits are built up in the fund and can also be lent.

Simple nominal rates on deposits were compared and lending rates were converted into effective nominal annual declining-balance rates. Rates on savings accounts were found to be highly diverse ranging from zero in bank current accounts and ROSCAs to returns to shares in ASCAs of around 10% and above. On the lending side rates ranged from moneylenders charging 360% to AFC rates of 17% that are still controlled even if funds are not available.

The argument of the new institutional economics is that in order to understand differences in lending rates it is necessary to take into account the transactions costs incurred by lenders in raising funds, making loans, covering default and making a profit (or return to capital employed). The analysis here incorporated the financial transactions costs incurred by borrowers in taking a loan as a result of its conditions but did not attempt to analyse the cost to the financial intermediaries of actually making loans. Nevertheless, the discussion clearly illustrates that the processes of price formation differ significantly between these types of intermediaries. The section on profitability also confirms with examples the discussion of the different cost elements involved in lending that were laid out in Table 3.3.

The analysis of profitability examined rates of return on capital employed. For the main banks these have been high and volatile over the 1990s. The explanation concerned the role of macro-economic factors. Treasury Bills provided safe investments and high returns in the mid-1990s. But the poor lending performance of the nationally owned banks became dramatically apparent when CBK provision rules changed (see Chapter Five, p121) and income from TBs started to fall.

By contrast, SACCOs (and especially the small local ones) are relatively immune from these macroeconomic influences. Historically law has determined SACCO interest rates, but even with liberalisation only some have increased their rates. This reluctance to raise rates can be understood because most members are borrowers – especially in employee SACCOs - and this means that they are unlikely to vote for the rate to rise. For ASCAs on the other hand, higher interest rates can more quickly and easily be seen to benefit members because the interest produces more funds to be lent and dividends paid to members can be very high. For both SACCOs and ASCAs, costs can be kept low through high levels of voluntary and subsidised input, and members decide on the level of interest rates. Returns in these mutual intermediaries therefore result from both their internal structure and the wider policy environment.

The similarities of organisational form between AFC and MFOs are also apparent – Chapter Two referred to them as "transfer-based" forms of intermediation. Both have been dependent on donor funds, as they cannot raise deposits. AFC, despite its losses cannot be liquidated without government agreement and it has been a tool of political patronage. MFOs are also loss making, apart from K-REP. The remaining MFOs are the subject of a donor experiment to establish self-sustaining lenders and hence can carry losses while they can sustain donor support.

The lack of financial layering in the market could also be seen as evidence of fragmentation and this is caused by specific constraints to interaction between intermediaries. Thus it could be argued that the difficulties SACCOs face in borrowing from the banks stem from the fact that they do not charge nominal interest rates that would enable them to cover the cost of funds from the bank because past legislation has prevented it. However, there is no reason why this could not continue even in a liberalised environment and examples show that it does.

An analysis of information and transactions costs would regard these differences in returns as evidence of fragmentation since risk-adjusted returns are not comparable. However, the argument here is that this fragmentation is a function of the organisational form of the financial intermediary and the evidence presented here strongly supports this. The way in which intermediaries in Mathira operate demonstrates that different forms are subject to different sets of influences – both internal, for example, in decisions over interest rates; and external, in terms of the regulatory and macroeconomic environments. Thus while banks have been directly affected by government monetary policy, SACCOs have not. By contrast SACCOs and ASCAs can isolate themselves from these influences and their objective may indeed be this isolation. Thus there is no reason why risk-adjusted returns should equilibrate between different types of financial intermediary.

Chapter 7 Financial Service Use in Mathira

This chapter goes beyond the supply side examined in Chapter Six to investigate the use of financial services in Mathira. The conceptual framework in Chapter Two proposed that the rules, monitoring and enforcement mechanisms of types of financial intermediaries differed and that social relations of gender, age, class, ethnicity and religion were likely to influence how agents related to them. This chapter therefore explores the data to test the view that social relations cause market fragmentation.

This chapter analyses the second round survey data on financial service use collected from 68 individuals in 44 households. The sample was purposively selected in order to ensure representation of socio-economic characteristics of age, gender, marital status and location (see Chapter Four). The data has been pooled for the analysis and is first cross-tabulated by socio-economic characteristics to examine the use of particular financial intermediaries. The sample was homogeneous in terms of religion (Christian) and ethnicity (Kikuyu). The analysis therefore concentrates on analysis by age, gender, marital status, education, location and income source, with various indicators of wealth based on expenditure, landholding and household assets.

Logistic regressions have also been used to find out whether patterns identified in the cross-tabulations could be further substantiated. These regressions examine the relative importance of different socio-economic factors affecting the likelihood that a service is used. While they cannot compensate for the purposive selection criteria, the objective was to identify patterns in the data that required further explanation and the regressions assist in achieving this. Subsequent chapters then use qualitative data to provide further evidence and explanation of the patterns found here. The details of the regressions can be found in Annex Three.

First, the analysis examines respondent's use of savings services in the last two years. This is analysed by intermediary and how this relates to socio-economic characteristics. Then it considers the amounts individuals saved in them. The chapter then goes on to examine the sources from which respondents borrowed and the amounts and frequencies involved.

7.1 Savings services

7.1.1 Use of savings services by financial intermediary

48.5% of individuals in the sample used ROSCAs (see Table 7.1). These were closely followed by bank and building society accounts at 45.6%. Insurance groups were used by 39.7% - whether making regular contributions (17.6%) or irregular contributions (25%). 33.8% had an account in a cash crop SACCO. All remaining services were used by 10% or less of the sample.

Table 7.1 cross-tabulates the use of financial services by socio-economic characteristics. Chi-square test results are indicated in cells that produced significant results. However, given the nature of the sample, sub-sets were in many instances too small to render expected cell values high enough for significance tests to be valid. It is therefore important to examine patterns even where significance is not indicated. The derivation of the poverty variables related to expenditure and assets is explained in Annex One.

As the most widely used service, ROSCAs were used by more women (65.7%) than men (30.3%), and this result is significant both in the cross-tabulations and the logistic regressions (see Annex Three, Table A3.1). Other than this difference by gender, use appears to be evenly spread by characteristics such as age, education and location. Half of those without a main income source also used ROSCAs. This was because they were married women who used money saved from housekeeping given them by their husbands for ROSCA contributions. Marital status shows some variation, suggesting greater use by those widowed (i.e. both men and women) and no use among those separated or divorced. However, this sub-sample is very small. Using an expenditure-based measure of poverty indicates lower use among the poorest and richest in the sample. This pattern also appears in the data by landholding sizes where use falls to lower levels for those with less than 0.25 acres and is highest in the group with access to one to five acres. However, those who had no land used ROSCAs as frequently as the average. This is because most households without access to any land live in town (see Table 7.1) and none were below the poverty line.

By contrast, the socio-economic characteristics that are related to the use of a bank or building society account are quite different. Table 7.1 indicates that those with a secondary education were more likely to use a bank account than those with a primary education. Those in employment or business were most likely to have bank accounts compared to those with no main income source or who relied on casual labour or agriculture. Employment was a mildly significant factor in the logistic regression (Annex Three, Table A3.2) and this is not surprising as employees often receive salaries through the banking system. Those living in Karatina town used bank accounts more than those living in the rural areas; those living in Chehe - the sub-location farthest from the town – used them least. Those with no land were most likely to have a bank account, and this is due to them being more likely to live in Karatina. Bank account use was positively related to wealth levels using indicators of expenditure, assets and landholding and the logistic regression also suggested the importance of expenditure levels.

While proximity to the bank therefore appears to be an important factor this is more likely to be related to the fact that those in town were most likely to be in business or in employment. Many in the rural areas commented that the costs of travelling to Karatina meant that using a bank or post office account to make small deposits was too expensive, yet tea and coffee farmers who received their income through their cash crop SACCOs, whose offices were in town, rarely complained about this cost.

Table 7.1: Use of savings service by socio-economic characteristics

(% of individuals)	Sample Size	Bank/ Building society	Cash crop SACCO	Employee SACCO	Post office	ROSCA	Independent ASCA	Managed ASCA	MFO group	Insurance group - regular or irregular	Insurance group (regular saving)	Insurance group (irregular)	Other savings group
Overall	68	45.6	33.8	10.3	8.8	48.5	8.8	5.9	7.4	39.7	17.6	25.0	2.9
Gender:			*			**							
Men	33	51.5	45.5	3.0	12.1	30.3	9.1	0	9.1	36.4	21.2	21.2	0
Women	35	40.0	22.9	17.1	5.7	65.7	8.6	11.4	5.7	42.9	14.3	28.6	5.7
Marital status:													
Married	49	44.9	28.6	12.2	10.2	49.0	10.2	4.1	8.2	40.8	18.4	24.5	2.0
Single	9	66.7	11.1	11.1	0	44.4	11.1	11.1	11.1	33.3	11.1	33.3	11.1
Sep/Divorced	3	66.7	33.3	0	33.3	0	0	0	0	0	0	0	0
Widowed	7	14.3	100.0	0	0	71.4	0	14.3	0	57.1	28.6	28.6	0
Age:			***										
<40	39	48.7	12.8	12.8	10.3	53.8	10.3	5.1	7.7	35.9	12.8	25.6	5.1
>=40	29	41.4	62.1	6.9	6.9	41.4	6.9	6.9	6.9	44.8	24.1	24.1	0
Education:		***	+										
Primary & less	29	17.2	44.8	0	10.3	48.3	6.9	3.4	0	41.4	13.8	27.6	0
Secondary & higher	39	66.7	25.6	17.9	7.7	48.7	10.3	7.7	12.8	38.5	20.5	23.1	5.1
Location:		***	**										
Gatundu	22	31.8	54.5	13.6	13.6	50.0	9.1	0	0	45.5	22.7	22.7	0
Chehe	22	13.6	36.4	4.5	4.5	45.5	4.5	4.5	0	40.9	9.1	31.8	0
Karatina Town	24	87.5	12.5	12.5	8.3	50.0	9.5	12.5	20.8	33.3	20.8	20.8	8.3
Individuals main income:													
Agriculture	21	23.8	76.2	0	9.5	47.6	4.8	4.8	0	52.4	23.8	28.6	0
Business	19	78.9	21.1	0	5.3	47.4	21.1	10.5	26.3	42.1	26.3	26.3	10.5
Employment	12	83.3	16.7	58.3	25.0	50.0	8.3	8.3	0	25.0	8.3	16.7	0
Casual labour	12	8.3	8.3	0	0	50.0	0	0	0	25.0	0	25.0	0
None	4	0	0	0	0	50.0	0	0	0	50.0	25.0	25.0	0

Table 7.1 (continued)

	Sample Size	Bank/ Building society	Cash crop SACCO	Employee SACCO	Post office	ROSCA	Independent ASCA	Managed ASCA	MFO group	Any insurance (regular or irregular)	Insurance group (regular saving)	Insurance group (irregular)	Other savings group
Exp poverty group:	66	47.0	33.3	10.6	9.1	47.0	9.1	6.1	7.6	37.9	18.2	22.7	3.0
Below PL	7	0	28.6	0	0	28.6	0	0	0	57.1	14.3	42.9	0
100-200% PL	22	27.3	40.9	9.1	4.5	54.5	9.1	4.5	4.5	31.8	13.6	14.3	4.5
200-400% PL	20	50.0	30.0	15.0	15.0	60.0	10.0	15.0	5.0	40.0	15.0	23.8	5.0
>400% PL	17	88.2	29.4	5.9	11.8	29.4	11.8	0	17.6	35.3	29.4	20.0	0
By asset score:	68												
0-5	25	16	40.0	12	8	48.0	8	0	0	36	8	28	0
6-10	9	33.3	44.4	0	22.2	44.4	0	0	11.1	33.3	11.1	22.2	0
11-20	19	57.9	42.1	5.3	10.5	52.6	5.3	15.8	0	42.1	21.1	21.1	10.5
>21	15	86.7	6.7	20	0	46.7	20.0	6.7	26.7	46.7	33.3	26.7	0
By landholding:	67	44.8	34.3	10.4	9.0	49.3	9.0	6.0	7.5	40.3	17.9	25.4	3.0
No land	6	100	0	33.3	33.3	50	16.7	16.7	16.7	16.7	16.7	16.7	0
<0.25 acres	4	0	25	0	0	25	0	0	0	0	0	0	0
0.25-0.99	15	6.7	26.7	0	13.3	66.7	0	0	0	60	26.7	33.3	0
1 – 2.99	26	61.5	46.2	11.5	7.7	50	11.5	11.5	7.7	23.1	7.7	15.4	7.7
3 - 4.99	8	50	62.5	12.5	0	37.5	12.5	0	12.5	100	50.0	62.5	0
>5 acres	8	37.5	12.5	12.5	0	37.5	12.5	0	12.5	37.5	12.5	25.0	0
By landholding:													
No land	6	100	0	33.3	33.3	50	16.7	16.7	16.7	16.7	16.7	16.7	0
< 1 acre	19	5.3	26.3	0	10.5	57.9	0	0	0	47.4	21.1	26.3	0
1-5 acres	34	58.8	50	11.8	5.9	47.1	11.8	8.8	8.8	41.2	17.6	26.5	5.9
>5 acres	8	37.5	12.5	12.5	0	37.5	12.5	0	12.5	37.5	12.5	25.0	0
By land ownership:	68												
No land	6	100	0	33.3	33.3	50.0	16.7	16.7	16.7	16.7	16.7	16.7	0
Own land	33	57.6	42.4	12.1	0	42.4	15.2	6.1	12.1	39.4	21.2	21.2	3
Family land	25	20	36.0	4.0	16.0	52	0	0	0	44	16.0	28.0	0
Rented/borr'd	4	25	0	0	0	75	0	25	0	50	0	50.0	25

Note – the level of significance is indicated for the cell as a whole on the basis of the chi-square statistic for the cross-tabulation;
+ - significant @ 10% level ; *- significant @ 5% level ; ** - significant @ 1% level ; *** - significant @ 0.1% level

45.5% of men and 22.9% of women used cash crop SACCOs. This is because men are more likely to have control of cash crop income than women. Use was also significantly higher among the older age group and those with a primary rather than secondary education. The logistic regressions also confirmed the significance of age and gender (Annex Three Table A3.3). These patterns can be explained as follows. The mean age of household heads in the two rural sub-locations is significantly higher (at the 1% level) at 49 years, than in town at 34.5 years, and it is the rural households that have cash crops. These age differences result from a number of factors. First, people who have worked in employment or business return to the rural areas when they retire. Second, with the extent of land division, young people are now less able to derive an adequate income from the small farms they may be allocated (see Chapter Eight), and are forced to seek employment or business opportunities elsewhere.

A pattern related to marital status was also apparent: all of the widowed in the sample had cash crop SACCO accounts because they all lived in the rural areas and had cash crops. Data from the first round random sample survey indicated that 75% of female-headed households in the rural locations were widows while all of the female-headed households living in town were single. There is a tendency for widows to live rurally rather than in town and to have inherited cash crops from their deceased husbands.

The wealth indicators of expenditure, assets and landholding, suggest that cash crop SACCO use was lowest amongst the poorest categories, rose in the middle groups and declined again in the wealthiest categories. This reflects a middle wealth stratum for whom cash crops are an important income source, but those with the smallest landholdings have insufficient space or insecure tenure (see Chapter Seven), and the wealthiest are unlikely to be dependent on cash crop income. Also, tea farmers are not restricted to receiving their tea income from tea SACCOs but can also receive it through bank accounts so that the wealthiest are more likely to receive it this way.

39.7% of the sample contributed to an insurance or mutual aid group making either regular or irregular contributions. As discussed in Chapter Six, these groups assist members in the event of emergencies, and especially death. Men in the rural areas often belong to these groups via *mbari* and women's groups in the rural areas often also make these contributions. Ad hoc contributions for emergencies are also a common feature of many town-based ROSCAs.

Landholding sizes produced the most noticeable pattern in relation to use of insurance groups. None of those with less than 0.25 acres (but not landless) belonged to such a group whereas all of those with three to five acres contributed. The logistic regression also indicated that landholding was mildly significant. The explanation for this is not entirely clear, but as a result of small holding sizes all of these individuals were casual labourers and the variable nature of this income may have contributed to their decisions not to join clan-based insurance groups, although this pattern does not appear from the data on main income source.

The savings services used by less than ten per cent of the sample in some cases also offer clear patterns although in most of these cases chi-square tests and logistic regressions could not be used to confirm these. They are discussed in turn.

Employee SACCOs are obviously only accessible to those who are employed. The seven individuals in the sample who were members were all employees of local or national government: teachers, civil servants and a local council employee. Five employees (all men) did not have access to SACCOs via their employment: they were drivers, a teacher in a private school and a pastor in an independent church. Thus, all who had access to an employee SACCO joined it. The greater use by women compared to men reflects the fact that all of the women were in employment that had SACCO access.

The use of a Post Bank savings account was low at 8.8% of the sample. These accounts were used slightly more by men than women; by those married than not married; those under 40 and with less education; and by those in Gatundu and Karatina rather than Chehe. Those in employment also used them more often, along with those without land – a feature that links to those who live in town and are employed. It was perceived as convenient and cheap for those who wanted to deposit small amounts and are living or working in the town. A reason two respondents gave for having a Post Office account was the ease with which withdrawals could be made at any branch in the country. Thus, for those who travel regularly, this can be a particularly useful feature.

Six individuals used independent ASCAs – three men and three women. Two men were members of the same men's ASCA in Gatundu that developed out of a lineage insurance group. Members were saving regularly for emergencies and then found that the savings fund was big enough to start giving loans. Another young man was a member of an ASCA based at the casual labour market in town. The three women belonged to different ASCAs: two in town and one in Chehe had a family ASCA.

Despite the extensive outreach of the MFO managed ASCAs that was documented in Chapter Six, only 6.1% of this sample were members and all were women. All of these women had expenditure levels above the poverty line and were in the top two categories of asset ownership.

Use of MFOs, on the other hand, was by those who were educated to secondary level or higher, in Karatina town and in business. Having a business is usually a criterion for membership. Saving in these groups is compulsory in order to access loans. Only 7.4% (5) of the sample used these services. The proportion by gender shows slightly more men than women (3 men and 2 women). Of the four MFOs, it is only the KWFT programme that is women only.

Finally, there were two women who participated in groups that were only for saving. One was saving with her sisters in a bank account with a view to possibly buying land with them in the future. Another was a single woman who traded vegetables in the market and belonged to a market-based group of some 300 individuals who were saving together to buy property in future. She felt that if she did not participate in this group then market traders would not assist her in case of emergency, as it was also an irregular insurance group.

Table 7.2: Frequency distribution of number of places in which people save (%)

Number of savings accounts	Formal sector savings accounts	Group based savings mechanisms*	Total savings accounts
0	29.4	39.7	13.2
1	39.7	25.0	19.1
2	23.5	13.2	27.9
3	7.4	10.3	14.7
4	0	4.4	10.3
5	0	5.9	7.4
6	0	1.5	4.4
7	0	0	1.5
8	0	0	1.5
Total	100.0	100.0	100.0
Mean	1.09	1.38	2.46
Mean by gender:		**	
Men	1.24	0.88	2.09
Women	0.94	1.86	2.80

*- This includes saving in insurance groups which is regular
** - Significant at the 1% level

Before moving on to examine the amounts of money individuals saved in these intermediaries, Table 7.2 analyses the number of financial intermediaries in which people saved. These are broadly categorised between the formal sector - including banks and building societies, SACCOs and the Post Office - and all of the group-based systems.

A higher proportion saved in the formal sector (70.6%) than in the informal sector (60.3%). 13.2% (10) used none of these savings services. However, individuals were likely to use a higher number of group mechanisms than formal sector accounts with the highest number being six. But those with the most were likely to be people who also had access to formal sector accounts since the highest number of savings accounts used by any individual was eight.

The mean number of formal sector accounts in which women saved was lower (0.94) than for men (1.24), but women used significantly more group-based mechanisms than men: 1.86 compared to 0.88. When these differences were examined for ROSCAs alone, almost equivalent proportions of men (24.2%) and women (25.7%) belonged to one

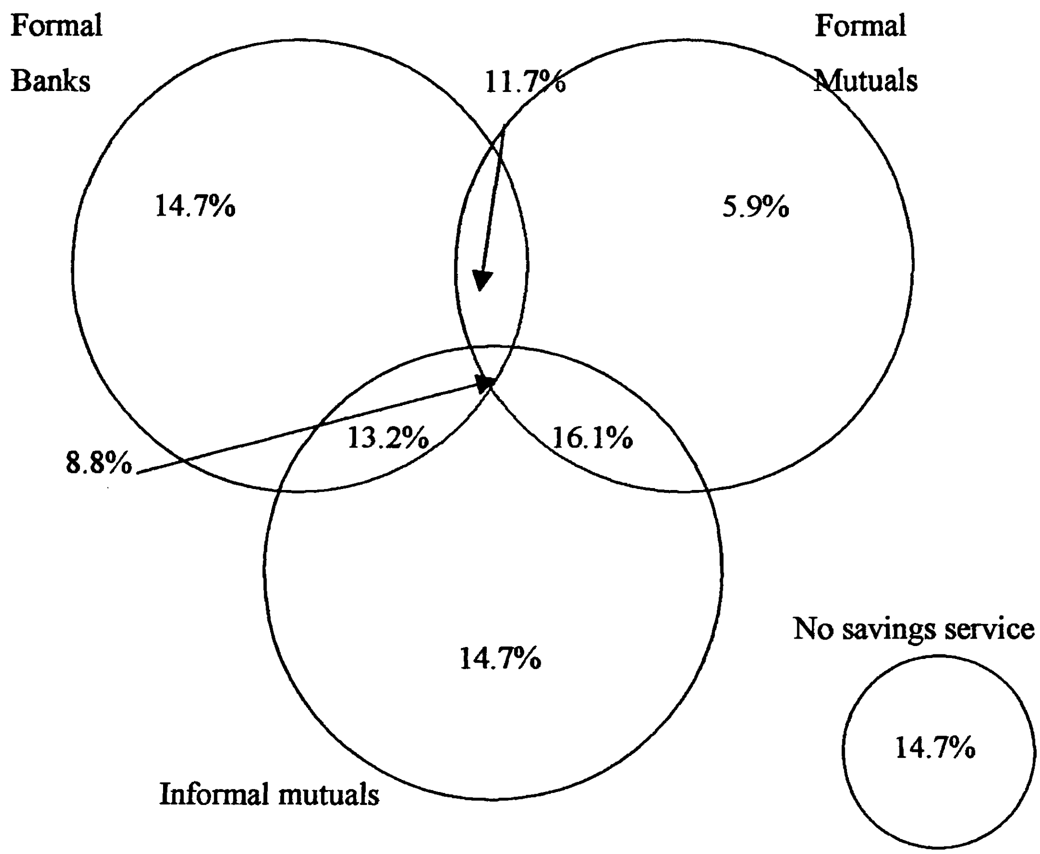
ROSCA. But the mean number of ROSCAs that women belonged to was significantly higher than for men: 1.34 compared to 0.42.

Ten individuals had no savings account of any kind (not including insurance groups). Of these, three were in Gatundu, seven in Chehe and none lived in town. Of the seven who lived in Chehe five were tea pickers, and all of these were under 40 years of age. One was a very old woman who relied entirely on her husband for money and another was a young man who was a carpenter making furniture using timber from the forest. In Gatundu those who did not have any savings accounts included a married woman who had left two groups in the last three years; another was a retired civil servant who claimed that all the accounts were in the name of his wife. The third in Gatundu was a young woman of 21 who was a housewife and whose husband also handled all of the household's money. Three of those with no savings account reported expenditure below the poverty line and all of these were women, with two of the three being tea pickers in Chehe. The remaining seven were distributed across the expenditure groups, one in the highest category (the retired civil servant) and three each in the middle two categories. The reasons for not having an account therefore include gender relations as well as poverty.

In Chapter Six it was found that the mutual sector accounted for approximately 49% of the number of savings accounts and 21% of savings by value. Figure 7.1 further examines the use by individuals of savings services of different types using the categories of formal banks, formal mutuals (i.e. SACCOs) and informal mutuals. Saving in an MFO has been excluded on the basis that savings is compulsory for getting loans, and post office savings accounts have been amalgamated with banks into the formal banks category for convenience. This analysis excludes insurance groups, as these are not financial intermediaries.

Figure 7.1 shows that 14.7% were only using formal sector banks or the post office, but 33.7% were using these accounts in conjunction with accounts in formal or informal mutuals. While only 5.9% used formal mutual services (ie SACCOs) alone, 27.8% used formal mutuals alongside formal banking and informal group savings systems. In all some 70.6% use some kind of mutually based savings service, with 36.7% using only mutuals and 52.8% using an informal group based service. This data both confirms the findings of Chapter Six in terms of the relative importance of mutuals, and further underlines the extensive use of group based savings mechanisms that were not captured in the supply side survey.

Figure 7.1: Proportion of individuals using savings services by organisational type



7.1.2 Savings flows and balances

This section analyses data collected on savings balances and flows in order to examine patterns of use in greater depth. Data on balances was easiest to obtain where accounts were held in formal institutions. For group-based systems – especially ROSCAs – it is very hard to analyse savings as a stock, and therefore data on contributions to these groups was collected.

Balances held in formal accounts are shown in Table 7.3. Employees held balances in SACCOs that were almost twice the level of balances held in banks although the range held in banks was much wider. This is partly because SACCO shares are difficult to withdraw. When asked, respondents said that they were saving in order to get a significant loan in the future for a large project such as building a house, or for their retirement. By contrast, balances in cash crop SACCOs were much lower. This is probably because these accounts are the means through which farmers receive cash crop income which is withdrawn for household use and are less likely to be used as a means of long term saving. Post office savings balances were slightly higher than those held in cash crop SACCOs.

Table 7.3: Savings balances held in formal savings accounts (Kshs)

Source	Sample size	Missing values*	Mean	Median	Range: Low	Range: High
Bank/building society	31	6	24268	15000	500	200000
Cash crop SACCO	23	4	5726	700	0	30000
Employee SACCO	7	0	41857	40000	28000	60000
Post Office	5	1	8440	1200	500	30000
Overall	66	11	18950		0	200000

* Values were missing usually because people could not recall their balances

Examination of these balances by socio-economic gender and marital status (Table 7.4) shows that unmarried men held higher savings balances in formal sector institutions than married men, and these were ten times higher than the balances held by unmarried[40] women. Conversely married women tended to have higher savings balances in formal institutions than married men, and also much higher balances than unmarried women. The difference in savings balances held by married and unmarried women is significant at the 5% level.

Table 7.4: Formal sector savings balances held by all individuals (Kshs)

Mean (Kshs)	Men	Women	Overall
Married	14537	17661	16248
Not married*	34589	3286	20894
Overall	20982	14307	17530

* Not married includes all men whether widowed, single, separated or divorced.

Turning to informal groups, contributions are shown in Table 7.5. Mean monthly contributions to ROSCAs were Kshs342, with a range of Kshs50 to 1200 and a median of Kshs200. The mean monthly payout was Kshs2,551, with a range from Kshs100 to 11,000. Mean length of the cycle was 8.8 months, the shortest cycle was one month and the longest 30 months.

By contrast, the amount saved in managed ASCAs was higher at Kshs925 per month than for other types of groups – even MFO groups. This can probably be explained by the fact that these contributions to shares enabled members to build up their loan entitlement in the group. However the numbers of observations are small except for ROSCAs and regular insurance. In the latter case the mean contribution was Kshs107 but ranging from as little as Kshs20 to Kshs200.

[40] The term unmarried is used here to include single, separated or divorced, and widowed.

Table 7.5: Contributions into group based savings mechanisms (Kshs/month):

Type of group	No. of observ-ations	Missing values*	Mean	Median	Range:	
					Low	High
ROSCA	61	2	342	200	50	1200
Independent ASCA	8	0	141	150	30	200
Managed ASCA	4	0	925	600	500	2000
Regular insurance group	14	2	107	100	20	200
MFO group	7	1	600	600	400	800
Other savings gps	2	0	300	300	100	500
Overall	95	5	335		20	2000

It was found above that women were significantly more likely to use a ROSCA and also to belong to significantly more groups than men. Contributions are therefore also examined by gender and marital status in Table 7.6. Women's overall contributions to group savings were significantly higher than men's. The difference between married men and married women's contributions is significant at the 1% level.

Table 7.6: Mean monthly contributions to group savings mechanisms

Mean (Kshs)	Men	Women	Overall
Married	144	** 647	401
Not married	291	356	518
Overall	187	** 565	435

** Row difference significant at 5%

Further analysis of formal sector savings among married women revealed that those in Karatina town held significantly higher (at 5%) balances than those in rural areas:

Kshs32,750 and Kshs9,613. Similarly married women in town made significantly higher (at 5%) contributions to group mechanisms than rural women: Kshs1,249 and Kshs327.

A link was made above between those who were rurally based, less well educated and older compared with town based, better educated and younger. Table 7.7 (overleaf) shows that while formal savings balances for younger people were lower than those for older people, group contributions were higher. By location formal balances and group savings contributions were higher in town than in the rural areas and similarly for those with secondary education compared to primary. As would be expected both balances and contribution levels rise in relation to expenditure grouping, and also for asset groupings. The fact that those with no land had the highest formal savings balances is again due to those in town having no land. However their savings group contributions were on average lower than those with land. That those with family land have the lowest levels of group contributions reflects that they are mostly rural.

7.1.3 Savings use: conclusions

First, this analysis has further underlined the findings of Chapter Six in indicating the importance of mutual sector savings mechanisms both formal and informal. While 45.6% used bank and building societies, the analysis suggests that most of these also had accounts in mutuals. 52.8% of individuals made use of group-based savings mechanisms, with 48.5% using ROSCAs - the single most used service. 33.7% used the formal mutual sector, although only 5.9% used only these services. 14.7% did not use any of these savings services.

Second, the evidence shows that gender influences participation in ROSCAs. Not only were women more likely to be members of ROSCAs than men, but also they were likely to join a significantly higher number. While women also contributed more to them, the contributions of married women in town were much higher than those in the rural areas.

Table 7.7: Mean balances and group contributions by socio-economic indicators

(Kshs)	Mean balance in formal savings accounts	Mean level of monthly contribution to group-based mechanisms
Age:		
<40	14227	565
>=40	19700	224
By location:		*
Rural	11120	220
Town	30684	865
By education:	***	*
Primary or less	4496	198
Secondary or more	27403	601
Poverty group:		
Below poverty line	100	68
100-200% PL	7122	393
200-400% PL	19717	668
>400% PL	39257	411
By asset score:		
0-5	9444	163
6-10	12200	194
11-20	15142	701
>21	42818	757
By land ownership category:		
No land	75875	450
Own land	19064	520
Family land	9264	193
Rented, borrowed land	1250	365

The service most used by the poorest (by expenditure) was insurance groups, but these are not strictly financial intermediaries. After these, cash crop SACCOs and ROSCAs were the only services that they used. There are strong underlying dynamics which link being rurally based, less well educated and older; or younger, better educated and in town. This is reflected in the use of services in that the better educated and town-based tend to have higher savings balances and contributions to groups. It is these individuals who are more likely to use banks and MFO services. All of those who did not use a savings service were in rural areas.

Analysis by marital status has also produced interesting findings. Rurally based female-headed households are mostly widows who have inherited cash crops, while female-headed households in town tend to be young single women. The balances held by single women were much lower than those held by married women. Their contributions to savings groups were lower but not significantly so. For unmarried men, on the other hand, their balances in the formal sector were much higher than those held by married men and their contributions to savings groups were also higher, though not significantly. This suggests that married women save higher amounts in both the formal and group mechanisms, while unmarried men make heavy use of the formal sector but also use groups more than married men.

7.2 Loan use

This section examines patterns of loan use. First it looks at access by intermediary and related socio-economic characteristics in a similar way as for savings. It then considers the relationship between savings and borrowing in the same financial intermediary. Finally, it examines the frequency and amounts borrowed from different sources in relation to particular socio-economic characteristics.

7.2.1 Loan services by financial intermediary

Respondents reported the sources from which they had taken a loan in the last five years. Overall, cash crop SACCOs are the most frequently used (19.1%); followed by friends and relatives (17.6%); employee SACCOs (8.8%). Banks, MFOs and MFO ASCAs are equal at 7.4%, followed by independent ASCAS (5.9%), employers (2.9%) and parastatals

(1.5%). Some of the socio-economic patterns underlying this use are similar to that for savings use and will not therefore be repeated.[41]

The socio-economic characteristics related to borrowing from cash crop SACCOs are similar to those for saving in them: that is, age and education, but gender is not significant in the cross-tabulations. However a logistic regression does suggest that being a woman does reduce the likelihood of borrowing (see Annex Three Table A3.5).

The second most important source of borrowing was from friends and relatives (12 loans) and the socio-economic characteristics that appear to be associated with this are gender, age and education. Those who borrowed from their friends and relatives were more likely to be men than women; to be younger and more educated. The logistic regression results (Annex Three Table A3.6) indicate that of these factors, education most increases the likelihood of borrowing while being older and a woman reduces the likelihood. This result is rather interesting because it suggests that young educated men make more use of this source and although the sample size is small, this is an unexpected result. Part of the explanation is likely to be that young men have limited access to land and cash crops with which to borrow from banks and cash crop SACCOs.

Borrowing from employee SACCOs strongly mirrors the savings results. 8.8% borrow from employee SACCOs while 10.3% were saving in them. Only one of the seven people saving in an employee sacco had not borrowed. A well-known feature of employee SACCOs is that all members tend to borrow. One SACCO analyst explained that members feel safer when they have a loan and tend to take loans continuously. This was certainly the case with respondents interviewed here. For example, a wife and her husband who were civil servants had taken loans one after another from their employee SACCOs to build a house. Because of this, employee SACCOs tend to experience liquidity problems. Members may start to limit their savings once they have reached a certain level of shares, because they may have reached the borrowing ceiling so that there is little incentive to save more in terms of loan access (COW, 230). By contrast cash crop SACCOs tend to be

[41] The small proportions borrowing from sources meant that chi-squared significance testing of the results was very heavily limited by small expected values.

much more liquid - as the figures in Table 6.1 also indicated - with a lower proportion of savings outstanding in loans compared to employee SACCOs.

Five individuals (7.4%) had borrowed from a bank or building society. It is important to examine these five loans in turn, since none of them involved land being formally used as collateral. Two individuals had borrowed from the Equity Building Society. One of these was a loan to a teacher (HH141W) against her salary. Short term loans against future income, usually salaries and tea payments, were a method of lending that Equity was using. The other was a loan to buy land (HH39H) using an existing title deed. However the title deed was not charged, it was simply deposited at the Building Society. The loan was for Kshs30,000 which is a relatively small sum against which to use a title deed. Both the borrower and lender explained that the costs related to charging the land would have been far too high in relation to the sum being borrowed.

Two loans were from the Co-operative Bank under its microfinance "Biashara Loans" scheme. This gave loans to business people of up to Kshs200,000 using stock and household items as collateral. These loans directly compete with MFO lending and one MFO was concerned about losing their best members to the Bank, as most people preferred individual to group lending. However, while two of the respondents had received loans, one of these complained about the process of getting it, which had involved her in many visits to the bank over a six-month period.

The fifth bank loan was an overdraft from a national bank without security and appeared to have been given because the woman was introduced to the manager by a friend. This was not secured but given against the income that the respondent received through her account from her husband who was overseas. Hence none of these bank loans were either long term or formally secured against major assets such as land.

The profile of those borrowing from MFOs and MFO ASCAs obviously reflects the compulsory savings explored above. Education, location and main income source as the key factors for MFO loans and women were the only users of MFO ASCAs.

Table 7.8: Use of loan service by socio-economic characteristics (percentages)

	Sample Size	Bank/ Building society	Cash crop SACCO	Employee SACCO	MFO	MFO – ASCA	Independent ASCA	Money-lender	Friend / Relative	Parastatal	Employer
Overall	68	7.4	19.1	8.8	7.4	7.4	5.9	0	17.6	1.5	2.9
Gender:									*		
Men	33	6.1	24.2	3.0	6.1	0	6.1		27.3	0	3.0
Women	35	8.6	14.3	14.3	8.6	14.3	5.7		8.6	2.9	2.9
Marital status:											
Married	49	8.2	12.2	10.2	8.2	6.1	6.1		14.3	0	2.0
Single	9	0	0	11.1	0	11.1	11.1		55.6	0	11.1
Sep/Divorced	3	33.3	33.3	0	33.3	0	0		0	33.3	0
Widowed	7	0	85.7	0	0	14.3	0		0	0	0
Age:			***						*		
<40	39	10.3	2.6	10.3	5.1	5.1	7.7		25.6	0	5.1
>=40	29	3.4	41.4	6.9	10.3	10.3	3.4		6.9	3.4	0
Education:			**						*		
Primary & less	29	0	34.5	0	0	6.9	3.4		6.9	0	6.9
Secondary & above	39	12.8	7.7	15.4	12.8	7.7	7.7		25.6	2.6	0
Location:											
Gatundu	22	4.5	36.4	13.6	0	0	4.5		13.6	0	0
Chehe	22	0	22.7	4.5	0	9.1	0		27.3	0	4.5
Karatina Town	24	16.7	0	8.3	20.8	12.5	12.5		12.5	4.2	4.2
Individuals main income:											
Agriculture	21	4.8	52.4	0	0	4.8	4.8		14.3	0	0
Business	19	15.8	0	0	26.3	15.8	15.8		10.5	5.3	5.3
Employment	12	8.3	8.3	50.0	0	8.3	0		16.7	0	0
Casual labour	12	0	8.3	0	0	0	0		33.3	0	8.3
None	4	0	0	0	0	0	0		25.0	0	0

Table 7.8 (continued)

	Sample Size	Bank/ Building society	Cash crop SACCO	Employee SACCO	MFO	MFO ASCA	Independent ASCA	Money lender	Friend / Relative	Parastatal	Employer
Poverty group by exp.:	66	7.6	18.2	9.1	7.6	7.6	6.1		18.2	1.5	3.0
Below PL	7	0	14.3	0	0	0	0		14.3	0	14.3
100-200% PL	22	4.5	31.8	9.1	4.5	4.5	9.1		22.7	0	4.5
200-400% PL	20	0	10.0	15.0	5.0	20.0	0		10.0	0	0
>400% PL	17	23.5	11.8	5.9	17.6	0	11.8		23.5	5.9	0
By asset score:	68										
0-5	25	0	36	12	0	0	4		24	0	4
6-10	9	0	22.2	0	0	0	0		22.2	0	0
11-20	19	10.5	10.5	0	5.3	21.1	0		15.8	5.3	5.3
>21	15	20.0	0	20	26.7	6.7	20		6.7	0	0
By landholding:	67	6.0	19.4	9.0	6.0	7.5	6.0		17.9	0 (1)	3.0
No land	6	0	0	16.7	0	16.7	16.7		33.3	0	0
<0.25 acres	4	0	25.0	0	0	0	0		0	0	25
0.25-0.99	15	0	20.0	0	0	0	0		33.3	0	0
1 – 2.99	26	3.8	26.9	11.5	7.7	11.5	7.7		15.4	0	3.8
3 - 4.99	8	25.0	25.0	12.5	12.5	12.5	0		0	0	0
>5 acres	8	12.5	0	12.5	12.5	0	12.5		12.5	0	0
By land-own'ship:	68										
No land	6	0	0	16.7	0	16.7	16.7		33.3	0	0
Own land	33	12.1	15.2	12.1	15.2	9.1	9.1		6.1	3	3
Family land	25	4	32.0	4.0	0	0	0		24.0	0	4
Rented/borr'ed land	4	0	0	0	0	25	0		50.0	0	0

Notes: (1) The respondent who had borrowed from the parastatal was unwilling to give her landholding although she certainly owned and had access to land hence she has dropped out of the data here. (2) For analysis by poverty group and total land holding, there are 66 and 67 cases respectively so percentages for overall access in these groups are stated across the first row of these cells. (3) The level of significance is indicated for the cell as a whole on the basis of the chi-square statistic for the cross-tabulation; + - significant @ 10% level ; *- significant @ 5% level ; ** - significant @ 1% level ; *** - significant @ 0.1% level

None of our sample reported borrowing from moneylenders. Two respondents reported borrowing from employers. One was a single woman in Chehe who was a tea picker and had taken advances from her regular employer against her wages. The other was a young married man in town who had borrowed from his employer in the past, but was no longer employed.

There was only one case of borrowing from a parastatal. This was a loan from Kenya Industrial Estates to a businesswoman running a secretarial college. This loan was for Kshs100,000 and had been secured against land. She estimated that the total costs of taking the loan had been Kshs7,320. This consisted of a 4% administration fee (Kshs4,000), registration, stamp duty and swearing fees (Kshs870), and land board fees of Kshs2,450. The interest rate on the loan was 24% declining balance over two years. In the event she repaid the loan in one year and hence the transactions costs represented approximately an additional 7% on the interest rate.

7.2.2 Comparison of saving to borrowing by source

In Chapter Six, the ratio of saving to loan value was examined to indicate the extent to which funds mobilised locally were lent locally (see Table 6.1). Examining the extent to which the sample saved and borrowed from an intermediary can complement this analysis. Note that ROSCAs have only been included on the savings side but would present a 100% ratio as all but the last member in the cycle is a net borrower.

Table 7.9: Ratio of savings to borrowing from different sources

Source	Proportion saving	Proportion taking loans	Ratio
Bank / building society	45.6	7.4	16.2
Cash crop SACCO	33.8	19.1	56.5
Employee SACCO	10.3	8.8	85.4
MFO	7.4	7.4	100
MFO ASCA	5.9	7.4	125.4**
Independent ASCA	8.8	5.9	67.0

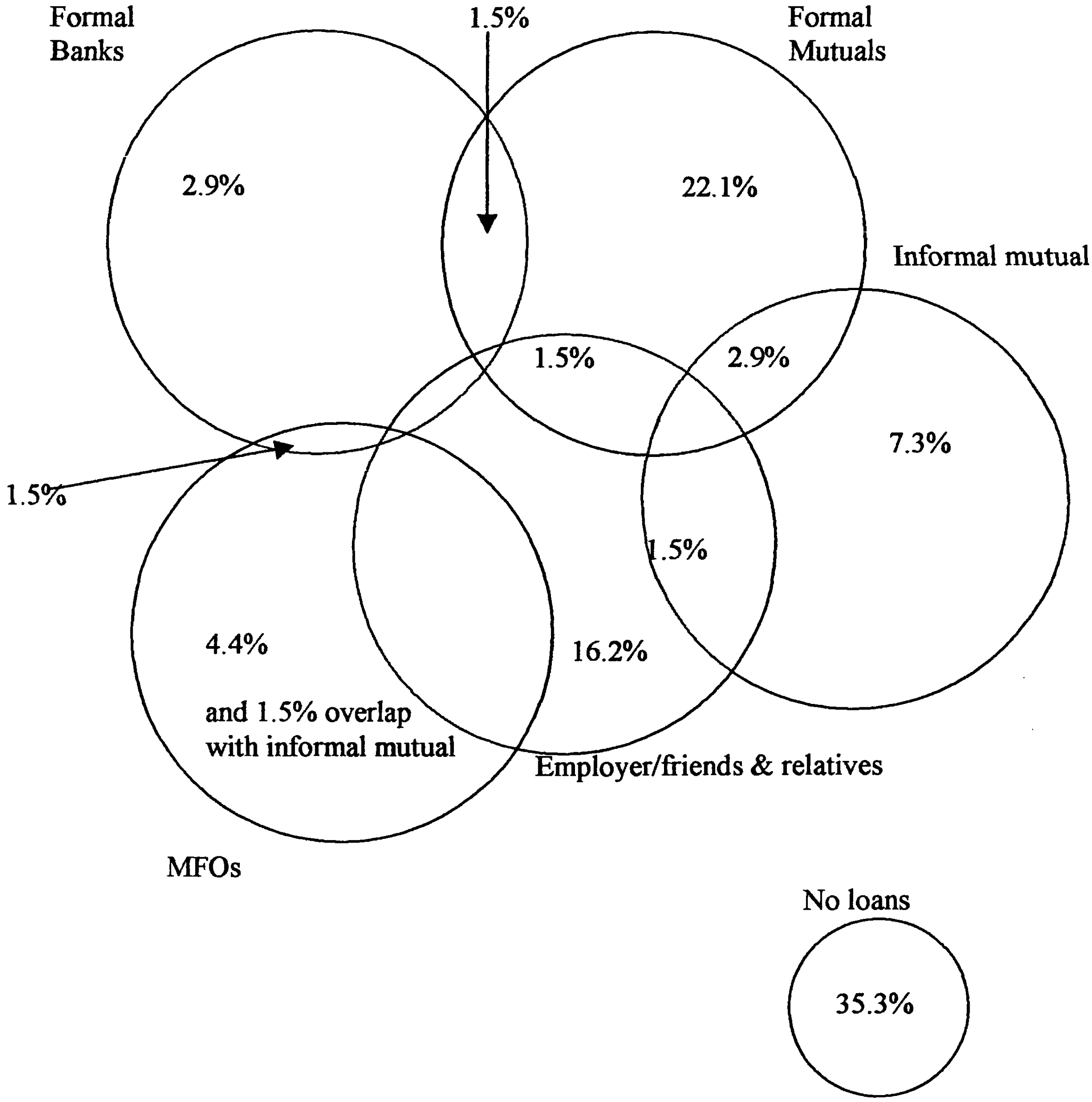
** This is caused by someone borrowing in the last 5 years from this source but no longer saving there.

MFOs give a figure of 100% because, as pointed out above, individuals join in order to borrow and the savings component is compulsory in order to achieve this. The ratio for MFO managed ASCAs is over 100% because an ex-member reported borrowing but no longer saves there. The ratio for independent ASCAs is also high at 67%. Employee SACCOs at 85.4% of members give the highest ratio in the formal sector followed by cash crop SACCOs at 56.5% of members are borrowing. The lowest figure at 16.2% is for banks and building societies.

The ordering here closely reflects the ratios and patterns found in Chapter Six. It confirms the view that banks and building societies tended to be used for saving, but few borrowed. On the other hand access to funds in SACCOs is more reliable and is highest in the MFO sector and in group-based financial mechanisms.

Figure 7.2 shows the proportion of individuals borrowing from particular forms of financial intermediary. Formal mutuals were used by 28%, while informal mutuals - excluding ROSCAs - were used by 13.2%. If ROSCAs were included here then clearly they would become the most important source from which loans were received. 19.2% took loans from other individuals whether these were employers, friends or relatives - making these an important source. These loans are usually interest free and with a flexible repayment agreement. By contrast, 5.9% had taken loans from formal banks and parastatals. In particular, Figure 7.2 shows that respondents had not made use of as many different types of loan service as they had savings services – although the data for savings services for two years rather than five.

Figure 7.2: Proportion of individuals taking loans by organisational type



7.2.3 Borrowing frequency and amount

The size of loans by source is reported in Table 7.10. This data is derived from the 52 most recent loans that individuals had taken. The single parastatal loan was the largest in the sample. By comparison bank loans were relatively small, demonstrating the implications of being short term and unsecured. Employee SACCO loans were relatively large at a mean of Kshs63,333 and much larger than cash crop SACCO loans. MFO loans were the third largest and these figures are more than double the mean loan size in Table 6.1. But this is easily explained since outstanding loans are always smaller than the original loan amount. However the broad ordering of sizes is relatively consistent between the supply side and this data. Independent ASCA loans averaged Kshs27,250 for the four individuals who had taken them, while managed ASCA loans were smaller at Kshs10,000. Loans from employers, relatives and friends are in the region of Kshs4,000.

Table 7.10: Loan size by source (Kshs)

Source	Freq-uency	Mean	Median	Range: Low	High
Bank/building society	5	25000	20000	10000	50000
Cash crop SACCO	13	11561	8000	1500	45000
Employee SACCO	6	63333	75000	10000	120000
MFO	5	55000	50000	20000	120000
Managed ASCA	4	10750	10000	3000	20000
Independent ASCA	4	27250	28500	2000	50000
Relative/friend	12	3487	1750	200	20000
Parastatal	1	100000	100000	100000	100000
Employer	2	4000	4000	1000	7000
Total	52	23694		200	120000

Table 7.11 examines the numbers of sources from which respondents have taken loans rather than the number of loans they have accessed. Again it excludes ROSCAs.

Table 7.11: Number of loan sources by socio-economic characteristics

	Sample Size	Column percentages				Row percentages			
		No loans	1	2	3	No loans	1	2	3
Overall	68	35.3	48.5	11.8	4.4	35.3	48.5	11.8	4.4
Gender:									
Men	33	50	42.4	87.5	0	36.4	42.4	21.2	0
Women	35	50	57.6	12.5	100	34.3	54.3	2.9	8.6
Marital status:									
Married	49	87.5	60.6	75.0	66.7	42.9	40.8	12.2	4.1
Single	9	4.2	21.2	12.5	0	11.1	77.8	11.1	0
Sep/Divorced	3	4.2	3.0	0	33.3	33.3	33.3	0	33.3
Widowed	7	4.2	15.2	12.5	0	14.3	71.4	14.3	0
Age:									
<40	39	62.5	57.6	37.5	66.7	38.5	48.7	7.7	5.1
>=40	29	37.5	42.4	62.5	33.3	31.0	48.3	17.2	3.4
Education:									
Primary & less	29	58.3	39.4	25.0	0	48.3	44.8	6.9	0
Secondary & above	39	41.7	60.6	75.0	100	25.6	51.3	15.4	7.7
Location:									
Gatundu	22	33.3	36.4	25.0	0	36.4	54.5	9.1	0
Chehe	22	37.5	33.3	25.0	0	40.9	50.0	9.1	0
Karatina Town	24	29.2	30.3	50.0	100	29.2	41.7	16.7	12.5
Main income:									
Agriculture	21	29.2	36.4	25.0	0	33.3	57.1	9.5	0
Business	19	20.8	24.2	50.0	66.7	26.3	42.1	21.1	10.5
Employment	12	12.5	18.2	25.0	33.3	25.0	50.0	16.7	8.3
Casual labour	12	25.0	18.2	0	0	50.0	50.0	0	0
None	4	12.5	3.0	0	0	75.0	25.0	0	0
Poverty grp :	66								
Below overall poverty line	7	17.4	15.6	0	0	44.4	55.6	0	0
100-200% PL	22	21.7	43.8	25.0	0	23.8	66.7	9.5	0
200-400% PL	20	39.1	25.0	50.0	0	42.9	38.1	19.0	0
>400% PL	17	21.7	15.6	25.0	100	33.3	33.3	13.3	20.0
By asset score:	68								
0-5	25	29.2	45.5	37.5	0	28.0	60.0	12.0	0
6-10	9	20.8	12.1	0	0	55.6	44.4	0	0
11-20	19	37.5	24.2	12.5	33.3	47.4	42.1	5.3	5.3
>21	15	12.5	18.2	50.0	66.7	20.0	40.0	26.7	13.3
By land owner-ship:	68								
No land	6	8.3	9.1	12.5	0	33.3	50.0	16.7	0
Own land	33	50.0	36.4	75.0	100	36.4	36.4	18.2	9.1
Family land	25	37.5	45.5	12.5	0	36.0	60.0	4.0	0
Rented, borrowed land	4	4.2	9.1	0	0	25.0	75.0	0	0

Those who had not borrowed from any source in the last five years were evenly split between men and women and were just over one third of the sample. While slightly more women than men had borrowed from one source, a higher proportion of men than women had borrowed from two sources, but only women had used three sources. Among these one had borrowed from two MFOs and an independent ASCA; another had borrowed from an MFO, the Co-operative Bank microfinance scheme and a parastatal, while the third had borrowed from two SACCOs of which she was a member via her employment as a teacher, and the Equity Building Society.

Married individuals formed the majority of those who had not borrowed at all. When further examined by household, only in four households had neither partner borrowed. In eleven households one of the partners had borrowed: the husband in seven and the wife in four. In nine households, both husband and wife had borrowed. This may suggest that borrowing is jointly organised with the borrowing being undertaken by the partner who has access to the source thought to be most appropriate. There was some evidence that discussions of this type took place.

To explore these patterns of borrowing within married households further, Table 7.12 examines loan sizes and outstanding debt by gender and marital status (for the most recent loan from a source). The loan sizes that women had received were, overall, roughly equivalent to those received by men. Married women had received loans that were 74% of the mean value of loans received by their husbands. However, outstanding debt among married men is twice the level for married women, although this result is not significant. This may suggest that women take shorter-term loans or pay them off more quickly. But unmarried women had received loans more than double the sizes of unmarried men (significant at 10%). Men who are unmarried had much lower levels of outstanding debt, both compared to married men and compared to unmarried women. Earlier it was found that unmarried men also had high savings levels. However, by comparison, the difference between outstanding debt levels for married and unmarried women was small.

Table 7.12: Mean loan sizes and outstanding debt by gender and marital status

(Kshs)	Marital status	Men	Women	All
Loan size	Married	34131	25255	29258
	Not married	8381	19021	13701
	Overall	24321	22988	23639
Debt outstanding	Married	38154	16993	26818
	Not married	2538	19911	11224
	Overall	24585	18008	21147

It has been noted above that the use of banks as a savings source, and MFOs and friends and relatives as loan sources, was related to higher educational levels. While use of cash crop SACCOs is related to lower education levels. It is not surprising that those living in the rural areas have lower levels of education - this is confirmed by the first round data which shows that on average those in town have had 11.3 years of schooling whereas those in rural areas have had 7.3 years (first round survey, significant at 1% level). Table 7.11 suggests that 58.3% of those who had not borrowed were educated to primary level. Only those with secondary level education had borrowed from three loan sources. Furthermore, the mean loan size (for those who had taken loans) with secondary education is Kshs30,724 while for those with only a primary education the mean is Kshs10,413 (significant at 5%), reaffirming the view that this is an important pattern in the data.

Age does not suggest a clear pattern. Although a greater proportion of the younger group had not borrowed, almost half had taken at least one loan – similar to the older group. Location does not offer a marked pattern either for those who had not borrowed or who had taken one loan, but a higher proportion of those with two or three loans were based in Karatina town.

The patterns in relation to the poverty indicators of expenditure, assets and landholding are intuitive. Those below the poverty line have either borrowed from one source or none at all, while those with two loan sources were all above the poverty line and those with three loan sources are in the richest group. The majority of those just above the poverty line had borrowed from one source while those in the category of 200-400% of the poverty line were almost equally distributed between those who had borrowed from one source and those who had not borrowed at all. Table 7.13 examines loan sizes and levels of outstanding debt and reveals, as would be expected, that these increase as individuals move up through the expenditure groups.

Table 7.13: Loan size and outstanding debt by poverty indicator

	Mean loan size	Mean level of outstanding debt
Poverty group:		
Below overall poverty line	7,066	1,391
100-200% PL	16,953	7,784
200-400% PL	30,590	13,075
>400% PL	31,962	28,176
By asset score:		
0-5	20,011	9,201
6-10	5,812	1,111
11-20	16,437	7,250
>21	42,606	36,846
By land ownership category:		
No land	13,000	3,333
Own land	40,079	26,401
Family land	9,431	1,569
Rented, borrowed land	4,000	0

Among the poorest by asset score, most had borrowed from one source. Again the pattern is partly as would be expected with those with higher asset counts tending to have borrowed from more sources. The surprising feature is those with between 6 and 10 asset points, who were the majority in each case, had not borrowed at all. In the 11-20 point asset group again almost half had not borrowed. It is only in the poorest and richest groups that the proportion who had not borrowed is considerably lower. This is also supported by the data in Table 7.13, which indicates that those with the highest asset scores had the highest mean loan sizes and levels of outstanding debt. However there is an oddity in that those with the lowest asset scores appear to have higher levels of debt and loans than the next group. This was caused by a young couple, both of whom had borrowed heavily from their employee SACCOs to build a house. As a result they had few household assets at the time of the interview.

Those who owned their land had borrowed from the most sources. However they were all women. For two of them the land was household land and they had borrowed from MFOs. It was only a separated woman who had her own land against which she had borrowed. In the other two cases land belongs to the household head but the borrowing is from MFOs.

The size of loans taken and level of outstanding debt was highest among those with their own land. Those who had no land follow, since many of these were business people in town. Those with access to family land and then no secure land access, unsurprisingly borrowed less.

Table 7.14: Reasons given for not borrowing

	Married Men	Married Women	Single HH Heads	Total
No source of repayment	4	4	1	9
Fear of repayment problem/loss of assets	3	3	1	7
Husband's agreement/disagreement		6		6
Don't need a loan	3	1		4
Interest/cost too high	3			3
No assets/collateral to use		1		1
Other	1			1
No response		1	1	2

Note: More than one reason could be mentioned.

Those who had not borrowed at all were asked why this was the case, Table 7.14. The reason most mentioned was that their income was not strong enough to manage the repayment of a loan. The second most frequent reason was a concern about the fear of having a repayment problem and the possible loss of assets that might result. Third, some married women explained that they were dependent on the agreement of their husband to borrow. In some cases this concerned the pledging of household assets, but in others husbands had simply refused to let their wives borrow.

7.2.4 Loan use: conclusions

The first conclusion is that borrowing from cash crop SACCOs was the single most common source of loans. This obviously mirrors the extent of cash crops in the area, but also indicates the relative ease of access that these mutuals offer as over 50% of those who saved in a cash crop SACCO also took a loan.

Second, employers, relatives and friends represent the second most frequent source of loans at 19.2%. Moreover, it was found that being educated, young and male increased the likelihood of borrowing from this source. It was also found that unmarried men tended to receive smaller loan sizes and have lower levels of outstanding debt than married men, or compared to women whether they were married or not. Their access to formal sources tended to be restricted by their lack of access to cash crops and land, and they do not appear to make significant use of group based mechanisms for borrowing either.

The number of places in which people save tends to be higher than the number of places from which they borrow. However, ROSCAs have been excluded from this analysis. A higher proportion of women than men have used one loan source in the last five years, whereas more men than women had used two sources. It is only women who have used three loan sources and two of the three women were members of MFOs. While there is some association that demonstrates that the better off (those with higher expenditure and asset levels) had access to more loan sources, higher proportions of both the poorest and richest groups had actually borrowed. However, the poorer groups tend to borrow less. Those who had not borrowed at all were distributed across groups.

While there is some association between borrowing and expenditure poverty groups, the result is not as strong as might be anticipated. Indeed this data suggests that quite high proportions of the better off did not take loans. This result is further supported in the asset score results, where the second and third categories show relatively high proportions of people who had not borrowed. These results are further underlined by the data on land ownership type. People who owned land seem to have been as likely not to borrow as those who had no land. Indeed it is those without assured access to land who were most likely to have borrowed (although the sub-sample is very small). An explanation is that the better off do not need to borrow small amounts and do not have access to large amounts unless they are in employee SACCOs or the rare cases that they might have access to parastatals and banks. However, loan sizes from banks were shown to be low compared to other sources suggesting that the banking sector has not been an important means of borrowing significant amounts.

These results can be interpreted in either of two ways. Either that the financial market is serving those who are poorer and in need of loans quite well; alternatively that the market seems to be failing those whom we would most expect it to be able to serve, that is, the less poor and those with assets and more secure access to land.

7.3 Conclusions

A number of patterns have emerged from this analysis of saving and borrowing among the individuals surveyed. First, this data exposes the role of informal group-based savings mechanisms and informal borrowing, which was not captured by the supply side data in Chapter Six. This demonstrates that group-based savings systems are extremely important savings mechanisms to a wide variety of people. ROSCAs are used by 48.5% and group-based savings mechanisms as a whole by 52.8%. On the borrowing side, ROSCAs were not included in the data, but if they were, they would alsobe the single most important source of loans. In addition to these, 11.7% borrowed from informal groups.

Alongside this, the data for SACCOs demonstrates the importance of mutually based financial intermediaries both in the formal and informal sector with 70.6% of individuals using mutually based savings services. 48.5% of individuals used a formal bank or parastatal in which to save, but most used other savings mechanisms alongside these accounts.

By contrast, individuals tended to borrow from only one source and few had borrowed from formal banks or parastatals. The loans from banks were small, unsecured and smaller than loans available from employee SACCOs, MFOs and independent ASCAs. By comparison the importance of borrowing from SACCOs is clear although cash crop SACCO loans are relatively small. When comparison is made of the extent to which respondents borrowed from the intermediaries in which they saved, the banks performed least well compared to mutuals. As sources of loans, employers, friends and relatives were also an important source.

ROSCAs were the most used service and women made significantly more use of them than men. Not only were they more likely to be members, but they also joined more groups, and saved more in them –especially married women in town. Further, married women had higher savings balances than married men. But unmarried men had much higher savings balances in formal accounts than the rest, and also saved more than married men in groups.

A further finding is that those who borrowed from friends and relatives were most likely to be educated, young men. This implies that they were not able to borrow from the formal sector even though they did save in it. This may be due to their lack of access to land and cash crops. They were also less likely to use groups to borrow. At the same time the size of loans taken from friends, relatives and employers was low, at approximately Kshs4,000. It could be suggested that women were able to get loans for these amounts through ROSCAs where the average payout was Kshs2,551.

Based upon the evidence presented here, there is little basis for suggesting that mainstream MFO services were reaching groups who were previously excluded. The small numbers among our sample were based in the town, had a business and a secondary education. None of the MFO clients were poor using an expenditure measure. All had access to more than one type of savings service and half had also had access to other loan sources.

Patterns of use of particular types of intermediary did not appear to be strongly related to indicators of wealth based on expenditure, household assets and landholding suggesting that class relations are not central. Rather, the underlying dynamic that characterises the region is that older and less educated people live in the rural areas and have access to land and cash crops. This affects a number of dimensions of financial service use. Cash crop SACCOs were most used by these people, including widows, who tended to live in rural areas.

The following chapters investigate three key aspects of these findings in greater depth. Chapter Eight investigates the use of land as collateral as a means to understanding the poor lending performance of the banks. Chapters Six and Seven have demonstrated the importance of the mutual sector on to both saving and borrowing, and the reasons for its importance are explored in Chapter Nine. Finally, in Chapter Ten, the gender dimensions of financial service use are investigated in order to understand more fully how they are embedded in gender relations.

Chapter 8 Land and Loans

"Nganga was rich. He had land. Any man who had land was considered rich. If a man had plenty of money, many motorcars, but no land, he could never be counted as rich. A man who went with tattered clothes but had at least an acre of red earth was better off than the man with money."

Weep Not Child, Ngugi Wa Thiongo, 1964

In Chapter Two, it was argued that the collateral that a financial intermediary requires is related to the nature of its organisational form. Thus banks and other formal lenders, such as parastatals, usually require assets that can be used to secure the entire value of the loan and in many societies the most available and valuable asset is land. In Chapter Seven it was found that lending by the banks in Mathira was unsecured and limited both in terms of the number and size of loans. This chapter explains why.

The explanation relates to three issues. First, the evidence on land ownership in Mathira demonstrates that it is deeply embedded in social relations - especially those of age and gender. This constrains the use of land as collateral by borrowers. Second, land has important cultural meaning and this further adds to the unwillingness of borrowers to use it as collateral. Third, reasons why lenders have also become reluctant to take land as collateral are explored. These reasons include the problems of selling land in the event of default in the face of local resistance. Land is central to politics in Kenya, and this has affected the land market in the 1990s through the use of land as a patronage tool and the "ethnic clashes" of 1992 and 1997. These developments are also explained.

The chapter demonstrates that the constraints that both borrowers and lenders face in using land as collateral are deeply embedded in social, political and cultural relations – both local and national. These relations fundamentally constrain the ability of borrowers to comply with the rules of banks, and of bankers to enforce them. This contributes to explaining the limited role of banks in rural lending.

8.1 Land rights in Kenya: a brief review

Land has been central to Kenyan politics since its appropriation by the British colonial government. Pressure on land eventually resulted in the Mau-Mau uprising and contributed to Kenya gaining independence (see Chapter Five). Relative to other areas, the Kikuyu had evolved a system of individual land claims, but the British view was that tenure was communal and therefore that its seizure did not merit individual compensation (Kenyatta, 1961; Sorrenson, 1967). The precise nature of the customary system has been difficult for historians and anthropologists to reconstruct but, as noted in Chapter Five, a Kikuyu pioneer who first cleared land or purchased it, established an *ithaka* (estate) and founded a *mbari* (sub-clan), effectively had an individual title to the estate which was passed to his relations on his death.

However, these individual claims differed from Western perceptions in that the transfer of land was not entirely free of encumbrance. Land sale could involve the potential for the land to be redeemed on payment of the original price, but this differed between areas of Kikuyuland (Fisher, 1954; Barber, 1970; Mackenzie, 1993). Leakey comments on the Kikuyu as being particularly prone to trying to borrow money and reports that they did raise loans against land which were redeemed by paying back. But land was no longer acceptable as security in the 1950s, rather a signature on a piece of paper was used (Leakey, 1956).

Mackenzie argues that while core anthropological texts on the Kikuyu such as Kenyatta and Leakey (Leakey, 1956; Kenyatta, 1961) described Kikuyu land rights as clearly laid down and immutable, an alternative understanding sees the situation as a complex of interlocking rights and interests mediated through the sub-clan and reciprocal obligations (Mackenzie, 1990). As Mackenzie explains, customary rights to land were never frozen but were "malleable and manipulable by individuals or groups, thus subject to continual construction and reconstruction in the resolution of conflict (and therefore) were part of the process of legitimation of individual material interests and thus social differentiation" (ibid:609).

It can be argued that the land reform brought in by the British in the highlands in the mid-1950s had three contradictory objectives. The first was to create titles and secure claims to land in order to end the uncertainty of customary tenure that had been created by colonial land appropriation. Second, it aimed to provide the basis of an agricultural revolution through land consolidation that would enable the introduction of cash crops and improved farming techniques. In this context land reform would allow exclusive titles and hence the means to raise loan capital - the essence of the 1954 Swynnerton Plan. Third was the political objective to create a stable middle class built around Kikuyu loyalists who would not be led into further political subversion. In the Kikuyu areas, the Mau Mau uprising and the state of emergency that was declared in 1952 precipitated land reform, although this had already started in some other parts of the country. The origins of Mau Mau were reviewed in Chapter Five, and it was a factor that precipitated movement towards land reform, over which the government had prevaricated for some time. Once the tactic of villagisation had overcome support for Mau Mau and softened Kikuyu resolve, the opportunity for land consolidation arose and it was undertaken with some urgency (Sorrenson, 1967).

Sorrenson's account indicates that there was a trade off to be sought between economic and political objectives (Sorrenson, 1967). He shows that the objective of agricultural growth, which required the creation of economically viable holdings, conflicted with the political objective of creating a politically stable and loyal Kikuyu middle class. The government understood that attempts to prevent fragmentation conflicted with the customary inheritance system and the desire for land in old age. Further, the colonial government had realised that offering credit against land could be seen as a direct attack on land rights if foreclosure was used. Early attempts at providing credit had therefore been based on the formation of credit co-operatives (Throup, 1988:209).

Another political dimension to the process of land reform is that loyalists were rewarded with their plots being consolidated and registered before those who had been detained were released (Sorrenson, 1967; Leo, 1984; Haugerud, 1989). This was one reason why the land issue was not revisited in the early years of independence despite calls from radicals (Sorrenson, 1967). Kenyatta was successful in "freezing" the debate over land, in part by bringing KADU, which had lobbied for decentralised government because of the land issue (see Chapter Five) into the KANU fold.

As Sorrenson pointed out in 1967, it is unusual that most studies of land reform in Kenya had investigated its economic effectiveness rather than its political dimensions. There is now a substantial literature exploring the economic effectiveness and impact on agriculture (see Platteau, 1996 for a survey). This literature suggests that there is little evidence that the policy, as proposed by Swynnerton in the case of Kenya, has had any significant effect. While some commentators argue that the Swynnerton Plan produced large increases in production and more than met some of its targets in the 1960s (Thurston, 1987), others argue that the adoption of cash crops and use of increased inputs did not depend on titling (Haugerud, 1995). The evidence that titling was instrumental in mobilising credit for investment is weak. Pinckney and Kumuyu (1994) report from their research in Murang'a that only two out of 115 households had an outstanding land-secured loan at any time during 1991. Place and Migot Adholla (1998) carried out their research in two areas of Kakamega District and two areas of Nyeri District in the 1990s. They found that the proportion of land parcels which had ever been used formally as collateral in the two areas of Kakamega District were 27.9% and 4.3%, while data on one area of Nyeri showed it had been used in 19.9% of cases. Shipton also reported that borrowers from commercial banks had been few in the districts he had visited (Shipton, 1992).

With this lack of borrowing from the formal sector for mortgages, research finds little impact of land titling on agricultural growth and hence the policy seems to have failed in meeting its objectives. In their analysis, Place and Migot-Adholla found that title had virtually no impact on the use of title to obtain credit nor did it contribute to longer loan maturities or higher amounts. They also found that neither of the specified regression models showed high explanatory power, suggesting that "our understanding of this market is poor" (Place and Migot-Adholla, 1998:368). Pinckney and Kimuyu find that entitlement did not increase security of tenure or create increased investment incentives. Nor was there evidence to suggest that the selling out of inefficient farmers had operated in a way that increased ownership inequality (Pinckney and Kimuyu, 1994).

The lack of impact on increased security of tenure has to be seen in the context of the complex legal situation that statutory attempts at titling had created. The reality was that the attempt to introduce titles on the English model, which were finally brought into law in 1959, has been imposed on top of existing customary land law but has not displaced it. Some analysts describe this as a situation of legal pluralism (Coldham, 1979; Mackenzie, 1996; Wanjala, 2000).

Coldham documented the extent to which the land register deviated from the situation on the ground in the 1970s as a result of sub-division, sale and succession not being registered. He concluded that there was considerable divergence between what he termed the "law in books and the law in action" (ibid:627). Haugerud finds similar evidence and argues that "[i]n spite of the system of formal titles, individuals continue informally to have overlapping and competing claims to the same parcels of land. Access to land was defined less by title deeds than by relations of descent, affinity, patronage and friendship" (1989:66).

Coldham explains that one of the reasons for this divergence was the role of Divisional Native Land Control Boards which were set up to oversee the transfer of land through sale, charge, or subdivision and to "ensure the system's acceptability at the grassroots" (Coldham, 1978:64). Land boards were decentralised and separate from the courts[42] and these features of the system are still in place (Kanyinga, 1998). The overall objective of the Boards was to further economic development, through preventing uneconomic fragmentation and the unproductive accumulation of land for speculative or prestige purposes. They also needed to take account of social concerns to prevent indebtedness and landlessness whether greater productivity resulted or not. Coldham explains that the circumstances under which Boards should refuse consent were never clearly laid out and the balance between economic and social objectives was never articulated. From his research it appears that social objectives dominated over economic ones in the decisions that Land Boards made. While guidelines were laid down to prevent uneconomic subdivision, in practice judgements about declining productivity due to sub-division were hard to make[43] and refusal on these grounds was rare. Rather, social objectives seemed to be in the ascendant with concern that the applicant and his family should not be rendered landless or without sufficient land to meet their needs. He reports that the records were full of cases where applications were deferred to await dependants' views of the sale, or confirmation of whether an applicant had land elsewhere. He notes that applications were generally rejected if the applicant had no other land to go to or his family objected (see also (Haugerud, 1989:78)). Indeed, the Secretary to a Land Board interviewed during this research described the *raison d'etre* of the Land Board as the protection of family interests (NUD,222). Coldham further maintains that these concerns had their basis in customary law, where land alienation was not possible without the consent of the clan elders. In this way the Land Control Boards were playing the part formerly played by these elders. It is not surprising that Board members perceived their role in traditional terms as it was the values of the local community which they were expected to reflect in their decisions (see also (Okoth-Ogendo, 1976). As Okoth-Ogendo observes, land law has been continuous in

42 Members are appointed by the Minister on the advice of local District Officials. It is chaired by the Divisional officer and the members, according to Coldham, were drawn from the local elite.
43 In fact research has suggested that small farms may be more productive than large farms – the "inverse-relationship". See Hunt for a discussion of this in Kenya (Hunt, 1984).

its evolution with independence seeing no significant shift in the way land was distributed and allocated (Okoth-Ogendo, 1991).

Berry's study of African agrarian social relations explains these underlying social dynamics well and is worth quoting at length. Her findings drawing on data from Central Kenya and elsewhere in Africa:

> "In practice.... land tenure rules have remained ambiguous, and rights in land were subject to ongoing reinterpretation. The significance of ambiguous land rights for agrarian change is not so much that land rights were insecure and land use, therefore, is inefficient, but that people's access to land depends on their participation in processes of interpretation and adjudication as well as on their ability to pay. Rising land values and intensified patterns of land use had certainly fostered the emergence of exclusive forms of control over land. However, to muster sufficient authority to exercise and enforce exclusive land rights, African landholders seek, inter alia, to expand the number of their supporters. Authority, in other words, rests partly on inclusionary strategies which are undermined when authority is used for exclusionary ends. Because of these contradictory pressures, claims on land have tended to multiply over time. ...People's ability to exercise claims to land remains closely linked to membership in social networks and participation in both formal and informal political processes. Membership in social networks does not guarantee anyone access to land, but it does tend to blur the impact of legally sanctioned processes of exclusion." (Berry, 1993: 103-4).

Therefore, while an examination of the economic objectives of Kenyan land reform tends to dominate in the literature, the political objectives were clearly critical and social claims have been entrenched through the system of Land Boards. This lays bare the contradictions of the policy: the primary purpose was to give the Kikuyu (and Kenyans in general) land security in the context of the insecurity that colonial settlement had provoked. The economic objective of agricultural development through mortgaging land then depended on ascribing to these same people a fundamental willingness to risk this right by surrendering it to institutions over which they had little control (i.e. banks and parastatals).

8.2 Patterns of land access and control: ownership, age and gender

In this section the evidence on landholding in Mathira that was presented in Chapter Five is further examined in order to understand how social relations of wealth, age and gender, influence access and control. Through this analysis, the constraints different socio-economic groups of borrowers face in using land as collateral are explored.

8.2.1 Land ownership and accumulation in Mathira

In Chapter Five a number of characteristics of landholding in Mathira were outlined. The mean landholding of sampled households was 2.12 acres with Chehe households having a significantly higher mean of 2.33 acres compared to that of Gatundu at 1.72 acres. However, only 39% of households held a title to their land with a further 42% gaining access via another family member and the majority of these household heads (35%) gaining access through their fathers to lineage land. Where land was held in the name of the household head, the mean owned holding size was 2.15 acres in Chehe and 1.06 acres in Gatundu. By contrast, where the father of the household head owned the land, holdings averaged 0.59 acres in Chehe and 0.24 acres in Gatundu suggesting that fragmentation is resulting in ever-smaller holdings.

An acre of land in Chehe in 2001 was worth approximately, Kshs400,000 with tea and Kshs200,000 without. In Chehe the mean holding size owned by the household head (see Table 5.3) was 2.15 acres. Hence the approximate market value of an average holding, on the basis that it was all under tea was Kshs800,000. In Gatundu, land with coffee trees was approximately Kshs1.5m per acre and Kshs1.3m without. The mean landholding owned by a household head was 1 acre, and hence the approximate value was Kshs1.4m. Land in Gatundu is more valuable than Chehe because of its proximity to the main road and Karatina town, and hence markets and services such as electricity and water. Gatundu land is also fertile and some areas have access to water for irrigation. Given that banks were likely to offer loans to approximately half the value of land used as collateral, these landholdings might permit loans of some Kshs400,000 in Chehe and Kshs700,000 in Gatundu. The latter sum of money would finance the purchase of a second-hand reconditioned mini-van from Japan, while the former would purchase a second-hand pickup in good condition.

It was reported in Chapter Seven (pp184 & 187), that only two of the sample of 68 individuals[44] had taken a loan from a formal financial intermediary using land as collateral in the previous five years. In one case the title had not been formally charged but simply deposited in the bank with signed transfer forms. However, it is doubtful that this title could have been foreclosed in practice as the Land Control Board had been bypassed[45]. Since the loan was for much less than the value of the land, the title was simply being held to ensure payment. This technique had also been used by a moneylender who explained to us that in the 1970s and 1980s he took title deeds, not in order to try and obtain possession of the land, but because people's attachment to it is such that they would always come to get the title
back and find a means of paying him. As a form of collateral for the moneylender it also had the advantage of being easy to hide.

The second loan was from KIE for Kshs100,000 and the title was formally charged. The borrower was having problems in repaying the loan the first time she was interviewed. She was interviewed again six months later, and by then she had fully repaid the loan because her business was uncertain. She explained that:

> *HH4, 190 (a single business woman in her forties): "If you lose your land today then the chances of getting another plot are minimal...how else can you acquire land [i.e. other than inheritance]...The hope you had is gone...If you live in town then you are not going to live in town for ever. When you can't pay the rent and there is no one to take care of you then you can go and feed yourself on your small land."*

While access to and control over land is important in terms of social status it is not necessarily seen as the key to accumulation. Leakey explains that land was not purchased as a means of wealth accumulation but, due to the importance that was attached to its possession, "this ambition is an incentive to acquire the wealth which will enable [a Kikuyu] to buy land" (Leakey, 1956:175). Haugerud suggests that the circuit is one in which the wealthy accumulate through their connections to non-local markets and

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44 In addition one of the first round sample had borrowed from the AFC in the early 1990s.

45 As Coldham, explains without any transaction relating to agricultural land gaining the consent of the appropriate land control board it is void for all purposes (Coldham, 1978).

institutions. This can enable land accumulation – what Kanyinga has called "accumulation from above" (Kanyinga, 2000:60)- through purchases and then through access to loans. But Haugerud argues that land is accumulated for speculative purposes and reports that, among those who had purchased land in her sample, only some two-thirds of it was under-cultivation at the time of her research. She further argues that success (even simply survival), in competition over economic resources such as land, education and employment, "is investment in social relations with kin, neighbours, bureaucrats and politicians" and that rural land rights remain important to all economic classes "as a means of affirming descent group membership and securing access to other resources" (Haugerud, 1989:74&78).

Hence, a number of researchers argue that accumulation in Kenya is not usually the result of agriculture but requires diversification into off-farm income sources, and particularly employment. Indeed, Collier and Lal suggest that it is through off-farm employment that the failings of the rural credit market were being overcome since remittances from urban wage employment enabled risks related to agricultural income flows to be managed (Collier and Lal, 1984). Further, that those wealthy people who get access to loans through their land were likely to divert these into education, housing, trade and consumption (Shipton, 1992).

In summary, only in 39% of sampled households in Mathira did the household head hold legal title to land. By contrast 35% had land that was still owned by the household head's father and had much smaller plots making them hardly viable as collateral even if the title deed is obtained. While holdings in Chehe were larger than those in Gatundu, the value of land was lower. However, secondary sources suggest that land is usually purchased as a result of accumulation from off-farm income sources rather than a cause of wealth. Never the less, land subdivision is producing landholding sizes that are now too small to adequately support a family without other income sources.

8.2.2 Age and land rights

Land inheritance is patrilineal in Kikuyu culture and ownership passes through the male line. The customary system of ownership is that young men are usually given a portion of land on their father's plot to cultivate (Coldham, 1979; Pinckney and Kimuyu, 1994). As

Coldham points out customary law determines the way a father or household head divides land. Among the Kikuyu and Luo this involves the allocation of land to a man when he reaches adulthood or marries, on which he could cultivate and build a house. While the land allocated was rarely revoked, the son would remain subject to the father's authority and hence decisions over that land were constrained (Coldham, 1979:617). The father's ability to decide how the land would be distributed among his sons was also a means of influencing and controlling their behaviour (Haugerud, 1995). The allocation may include a portion of the cash crop i.e. a number of coffee trees or tea bushes. With this endowment a son is able to register for a licence, for example to grow tea, and then to join a SACCO or marketing co-operative. However, this allocation rarely involves the registration of the subdivision or consequent issuing of title to the land.

Table 8.1 shows that this age-based stratification of landholding persists. For male household heads there is a statistically significant difference in the ages of those having title to their land and those who do not yet have it . Table 8.2 further indicates that in the tea-growing area, the age of male household heads with access to tea is significantly higher than those without tea, whereas for coffee there was no significant difference in ages.

Table 8.1: Mean age of male household heads owning land

Land title held by household head	Sample size (N)	Mean age*
HHHs holding title	42	48.45
HHHs not holding title	49	40.35

*Mean ages were statistically different at 5% level.

Table 8.2: Mean age of male household heads having cash crops

Cash crop	Sample size	Mean age
Tea in Chehe sub-location:		*
- had tea	7	33.00
- do not had tea	29	53.76
Coffee in Gatundu sub-location:		
- had coffee	5	34.40
- do not had coffee	29	45.45

* difference in means significant at 5% level

This age stratification of landholding is the result of social institutions surrounding age that were explained in Chapter Five. These are still important in the way that they influence perceptions that young men are not responsible and will sell land. This was evident from the qualitative interviews:

HH86H (age 52): explained that he is the eldest of three sons and each of them has been allocated 1000 tea bushes. His mother and father passed away some time ago but he has refused to subdivide the land with titles because one of his brothers is not responsible enough and he feared that his brother might sell his portion if he is given the deed.

HH8H (age 60): said that he would not want to give his title deed to young men because they were likely to sell the land. He himself only got his land from his father shortly before his father's death.

HH98H (age 33): said that he had, as yet, no title deed to his land though he felt that he would manage it better if it was his property. But he said that his father fears that he would sell the land if he gets it when he has a young family. Since he got married in 1996 he said he has been more careful with his money since he has a family to care for.

The cost of registering titles when land is subdivided is one reason that it is not done. Key informants quoted a cost of approximately Kshs20,000 to subdivide and re-register titles into between four and six separate plots (AMP,138; DUN, 222). But cost is not the only constraint. For some it is not acceptable to divide land while the father is still alive (AMP, 138). A local sub-chief explained that he himself, as a man of over 40 years, had not yet obtained the title to his land from his father.

"ndungiga uri mwoyo mdugakue narua" literally translated means "you cannot give out what you have so that you may not die quickly" (AMP,173)

Another informant said that dividing the land was like "wishing you were dead", and so old men tended to leave it to the last minute to do this (DUN,222).

A situation where land is subdivided and cultivated by sons is problematic if one of the sons wishes to use the title to secure a loan. He may obtain the permission of the father to use the land as collateral, but it is necessary that he also obtain the permission of his brothers. They too have the opportunity to register an objection at the Land Board.

Haugerud further argues that changing household composition which results from interpersonal conflict, migration, birth, marriage and death, creates situations that official land law is less flexible in managing than customary law (Haugerud, 1989). She goes further to suggest that "the formal system of freehold titles itself already threatens subsistence security and provokes conflict over control of land title deeds" (ibid:80). The cases in our sample where land access was through relatives other than fathers, particularly underlined this point.

This section has further explored the system of subdivision and land inheritance and the ways in which age relations influence it. Notions of maturity and responsibility towards landholding are a feature of the relations which persist in regulating access to land. These relations result in younger household heads being much less likely to have title deeds against which loans might be borrowed. However, we now examine gender relations to see whether title deeds could in fact be used in this way.

8.2.3 Gender and land rights

As already described, Kikuyu land inheritance is patrilineal and women rarely have direct access to titled land. However, because rights are based in a pluralistic legal system both men's and women's rights are complex, negotiable and contested. Hence the fact that women lack exclusive control over land does not mean that they do not have power in land relations.

Mackenzie's detailed study of gender and land rights in the neighbouring district of Murang'a demonstrates some of the dimensions of gender-based struggles over land. Indeed, she explains that women had a structurally important position as the head of a *nyumba* (hut) and the main agricultural producer. This gave her usufruct rights guaranteed by the *mbari*. The land she was traditionally given was a portion of the land cultivated by her mother-in-law. As one of Mackenzie's informants explained "'The man could only get land when he married, so without a woman there is no land'" (Mackenzie, 1990:619).

In the context of increasing land pressure Mackenzie argues that women in Murang'a appealed to their customary rights as a means of negotiation. She reports the case where a woman married a female 'husband' to secure full rights to the land of her husband and prevent her brothers-in-law from snatching it. This is a situation where a widow without sons marries another woman, who may then have sons. She is then able to allocate her husband's land to the sons on their marriage. However, in another case a woman without sons who had a title deed wanted to register the land in her daughters' names. But her brother-in-law argued that the land was his by right of succession, and that the land risked being alienated from the *mbari* when her daughters married. Mackenzie argues that *mbari* social organisation is a particularly important form of male solidarity through which men can pursue their interests and in this case running contrary to the rights theoretically guaranteed by holding a title deed. However, from these examples it is clear that both men and women could use customary law to legitimate their claims.

A key means through which women have also sought to protect their interest has been the Land Control Boards, which became operational in the 1960s. Mackenzie reports that increased land sales in the late 1970s and 1980s resulted in the courts of chiefs and sub-chiefs being "assailed by women unable to support themselves, or their children, the land on which they had lived having been sold, often without their prior knowledge" (Mackenzie, 1993:200). This partly refers to what Bassett calls "the apocryphal story of land loss in Kenya" [46], which was also recounted during this research (NUD,222). According to this account, in the 1960s and early 1970s when land was very cheap, men out drinking in bars were swindled out of their land by signing transfer forms using a thumbprint. Whether this is in reality true or false, it is certain that the government issued directives that sought to ensure that the whole family, and not just the title-holder, agreed to the land being sold or used as collateral. Sources differ as to when this took place. Pinckney and Mackenzie give differing accounts of the directives issued which might suggest that a number were issued during the period (Mackenzie, 1993; Pinckney and Kimuyu, 1994). The important point here is that Land Boards subsequently took family interests in land more seriously.

As a result, women and children in particular have the means to prevent land being used as collateral for loans and this was also found in interviews with local officials in Mathira (see also Haugerud, 1989). However it was not easy to find evidence that Land Boards rejected claims on this basis (see also Coldham, 1978). But this does not account for situations in which the application might never have actually got as far as being lodged. A local sub-chief explained that a man wishing to charge his land for a loan had to bring the

[46] Ellen Bassett, personal communication based on doctoral research, 9th October, 2001.

form to the sub-chief to sign. It was the sub-chief's responsibility to confirm that the family were in agreement with the transaction. He reported that there have been numerous occasions where the man has brought the form, and he has been told to return with his wife and family in order that he can ask them whether they agree with the transaction. He noted that in a number of cases the man did not return and he had later seen the man's wife who told him that she could not agree to signing the form (AMP,138).

In one of the focus group discussions carried out in this study, I asked a group of better-off women in Gatundu sub-location whether they would allow their husbands to take the title deed as collateral for a loan. They said that they could not because:

> *FGD12: "Men mind mostly about their friends and can go and drink the money." They reported that there had been several cases in the area where families had lost their land in this way.*

Women in the second round survey were also asked whether they had ever prevented their husband's land being used as collateral, but none said that they had. While I attempted to further investigate this it is probably more the case that the men now know that their families are not likely to agree and hence they do not even try to do this.

This therefore suggests that while women usually do not own land they can intervene to prevent its sale or mortgage. But as indicated above, a woman who owns a title deed might also be constrained by customary law in exercising her exclusive legal rights. Finally in this section, the survey data on women's landholding is reviewed to establish the extent to which women owned land (Table 8.3).

Female-headed households who owned land were mainly widows. This is confirmed by the data in which the mean age of women household heads owning land was significantly higher at 59 years (n=11) than for those not owning land - 37 years (n=26). However, there was no significant difference in the mean size of landholdings held by female-headed households compared to the whole sample (Table 8.4).

Table 8.3: Land ownership and female household heads by sub-location

Ownership type	Gatundu	Chehe	Karatina Town	Total
No. of Female HHHs	12	11	21	44
Female HHHs with no land	1	0	14	15
Female HHHs with land of which:	11	11	7	29
Owned by hhh	6	6	2	14
Owned by father of hhh	2	1	0	3
Owned by deceased husband	1	2	0	3
Land owned by father in law	1	0	0	1
Rented	0	0	2	2
Borrowed	0	0	0	0
Road reserve	1	0	0	1
Forest Land	0	5	0	5
Other	2	3	1	6

Table 8.4: Landholding sizes of female headed households

Number of hhs	Chehe	Gatundu	Karatina	Total
No land	3	1	14	15
<1 acre	2	4	1	8
1-3 acres	3	6	1	9
3-5 acres	3	1	2	6
>5 acres	0	0	0	3
Total	11	12	18	41
Mean land area	2.55	1.58	0.5	1.36*

* - the mean landholding sizes for male and female headed households were not significantly different.

However the qualitative interviews demonstrated that while widows may have had a title deed, they faced complex situations in which their children – primarily sons – were party to any decision over its use. Thus when asked about the use of their land as collateral, they responded:

HH4FHH: a widow of 60 with three acres of land to which she had title, and for whom coffee had been a main source of income. She said that she would have to consult the children if she wanted to dispose of a major asset. If they refused to let her sell the item then they would have to provide her with the money she needed.

HH88FHH: a widow of 54 who discussed her finances with her children, especially her sons who lived in the compound. She said that she did not make any decisions *for herself. In using the assets, she explained that if her sons did not agree then she could not use the assets as collateral or sell them.*

KMJ, 149 (a widow who declined to complete the individual interview): explained that she could not use the land or any of her assets to get a loan, or even sell them if she needed the money because her children would refuse and they would have the final say in the matter.

This evidence confirms the pluralistic and complex nature of land rights in Kenya. In this context women do not usually have their own titles because of patrilineal inheritance systems. However, the Land Control Boards have created a situation in which women can prevent men from risking their title deeds by using them as collateral. But customary law invoked by Land Control Boards cuts both ways and men may also use them to contest women's claims. Finally, where widows control family land, this is heavily constrained by lineage relations and suggests that they are in a sense holding the land in trust for their sons.

8.3 The cultural meaning of land

The previous two sections have suggested that individuals actively use social and financial resources to gain rights to land. It seems contradictory therefore to believe that they would be prepared to risk losing them by using them as collateral. Rather the evidence suggests that there is a strong aversion to this risk.

Pinckney and Kimuyu reported that many farmers in their sample would never accept a loan secured against land if there was any possibility of losing it (Pinckney and Kimuyu, 1994). Indeed they concluded from research in the Murang'a area of Central Province and the Moshi area of Tanzania that "considerations for social insurance for immediate family members appear overriding in the land ownership arrangements in these communities" (ibid:10). They also argued that, in the absence of supply, it is difficult to assess the importance of demand side factors, such as concern over loss. Shipton, on the other hand, argues that the Luo historically pledged a range of assets such as livestock, buildings or machinery, but never land. Hence the small number of land-secured loans in evidence was not entirely due to inadequate supply (Shipton, 1992:374).

Respondents in Mathira also expressed a general and widespread concern about the potential loss of land if used as collateral, explaining:

> *HH19W: "It is not good to use assets to secure loans" and she compared this to a SACCO that could only take her salary in the event of her default.*

> *HH12H: He said that he feared loans because he had seen other people lose their household items and their land. He explained that he would rather ask his employer for a loan or withdraw money from his business.*

> *HH53W: She said that she and her husband (a retired agricultural officer) had never discussed taking a loan against land because loans bring problems even to the children, since it is they who will suffer if you cannot pay. She also expressed a concern that it is easy to get into problems because although you might take a small amount of money it could become a big debt and people will come for the things that you used to secure the loan. She said that she preferred women's groups because if you are unable to pay you tell them when you can pay and they accept.*

Yet it is not simply the loss of land that is important but its cultural meaning. In the case of the Luo, Shipton explains that there was broad scepticism among the Luo about the land market, that it was deemed a betrayal to alienate ancestral land for money, and that money gained from selling land for personal gain was regarded as evil (Shipton, 1992). He also reports the cultural importance of being buried in the family homestead since reference to ancestral graves justified cultivation rights and claims to belonging. "Among the Luo, as among many other peoples with segmentary lineages, farmers identify a place on the ground with any ancestors buried there, and with a place in the social order. Land is considered a permanent family asset, essential to lineage survival and never to be let go of lightly…mortgaging the land is *mortgaging the ancestors* (original italics), and gambling against kinship and the social fabric itself" (ibid:375).

Considerations of misfortune and evil were also apparent among informants in Mathira. One respondent explained that he was unable to use his land as collateral because his father had put a curse on it telling him that he should never use his title deed to borrow a loan, rather he should only borrow against his coffee crop (HH23H). Another informant, who was the secretary to a divisional Land Control Board, explained how such curses were believed in relation to the disposal of land for money reporting that his cousin had sold a piece of land to pay his son's university fees. Later when his cousin was walking along the road, a tethered cow kicked him and injured him severely and this was interpreted locally as the result of the curse (NUD,222).

Informants also cited the role of burial in family land as an issue. Burial in a cemetery meant being considered a pauper. Being buried in family land meant that the deceased was brought back to where his parents were buried and hence where he belonged.[47] There was also a related belief that when someone was buried in their own land, they were still there looking after their family (NUD,222).

The importance of burial in ancestral land was underlined at a national level in 1986 by the famous S.M. Otieno case. This involved a dispute between Otieno's widow, Wambui Otieno, a Kikuyu, and Otieno's brothers who were Luo. Otieno's widow wished to bury him at their home in Ngong on the outskirts of Nairobi - a farm that had been bought and developed by them. Otieno's clansmen wanted to bury him at their home in Nyalgunga, Siaya District. Otieno's clansmen eventually won the case on appeal to the High Court (Ojwang and Mugambi, 1989; Cohen and Odhiambo, 1992). This provoked heated and widespread debate because the issues did not solely concern the Luo. Lonsdale maintains that there have been equally symbolic cases of Kikuyu burial. He refers, for example, to the case of Chief Koinange - a Kikuyu chief in the 1920s and 1930s - whose grandfather's bones were exhumed in 1933 to prove the extent of his *mbari*'s land lost to white settlement: "[p]ast Kikuyu corpses have been every bit as eloquent as Luo remains" (Lonsdale, 1992:110).

This section has demonstrated further constraints affecting borrowers' willingness to use land as collateral. People fear losing land because of its cultural meaning and symbolic importance. Using land to gain money could risk the wrath of ancestors and invoke the power of curses, and burial in ancestral land has meaning in terms of identity and belonging.

[47] Both Leakey and Sorrenson report that Kikuyu who originally bought land from Dorobo hunter-gatherers underwent a joint ceremony which adopted the Kikuyu into the Dorobo tribe and vice versa in order that the departed spirits of the two families would not object to the deal, mutual adoption being the only means of placating their belief in the power of the ancestors' spirits (Leakey, 1956; Sorrenson, 1967).

8.4 Wider constraints to land as collateral in the 1990s

The previous sections have examined social and cultural constraints to the control of land and its use as collateral for borrowers. This section reports why banks have problems in taking rural land as collateral.

For the banks, rural land has become increasingly unviable as a form of collateral since the late 1980s and during the 1990s. As one official reported, there is a "silent norm" that the banks avoid using agricultural properties because realising them in the event of foreclosure is a problem. As he put it "you never make money in realisation, it is a nightmare of a process" (AMA, 227). There were three main reasons for these increased difficulties. These reasons apply more generally and did not particularly emanate from Mathira, but are also relevant to the situation there.

First is the increased likelihood that local communities will oppose the auctioning of land. This problem started to emerge in the 1980s after banks had extended their operations upcountry. Okoth-Ogendo (1976) reports that the AFC rarely got beyond threats to foreclose, and Haugerud (1989,quoting Moris) suggests that banks found courts reluctant to allow them to do this. Yet Shipton also reports the difficulties that the AFC, and other lending bodies, encountered when attempting to foreclose on land, since relatives and neighbours of defaulters would arrive at the auction with machetes and clubs, to threaten prospective buyers. This led lenders to realise that land auctions were "potentially explosive" (1992:375).

While sale of land with vacant possession is the norm, purchasing a plot at a land auction may not guarantee vacant possession and there were reports of cases where buyers had to remove existing occupants of the property, themselves. Understandably therefore, it is unlikely that people from outside the area would want to get involved unless they could take possession of the property without having to resort to force. Furthermore, the use of force would be unlikely to result in good relations with neighbours, who are likely to be relatives of the defaulter. Shipton reports a case where the buyer eventually moved away, leaving the original owner on the land (1992:377). Thus, the market for rural land tends to be limited to local buyers and these also tend to be unwilling to buy if the family is resisting the sale.

The foreclosure process is not only problematic for the bank, but is also extremely costly for the borrower. The cost of auctioneers and the process of disposal means that the debt grows, as fees, charges and interest accumulate.[48] At the same time the value that is likely to be realised for the asset is likely to be low. One informant explained how he had bought a piece of land from his neighbour just a few days before it was to be auctioned in payment of a bank debt (UAM,132). He explained that the process of auctioning is hugely disadvantageous as a way of repaying because the bank is only interested in covering the debt and the costs, regardless of the value of the land. The bank will sell the whole plot as it has the entire title, even if a portion of the land might be sufficient to cover the debt. As a result it is much better for the defaulter to find a buyer privately and divide the plot, which is what he had done with his neighbour in this case. Indeed, Fisher reports in her 1957 account of land tenure that when land was used as security, then the debtor might give a plot of land commensurate with the debt, but that generally he would sell in order to repay the creditor and "may even be a little in pocket after paying the debt" (1954,paragraph 581). Moreover, in the course of foreclosure, the debtor is charged all of the costs involved, including those of the auctioneers whose costs are usually thought to be excessive (UAM,132). Because these costs are high and totally out of the control of the borrower[49], the defaulter feels further aggrieved by the situation (see also (Shipton, 1992:376)).

Politics can also be a factor in the foreclosure process. Shipton reports a 1991 Presidential Standing Order that prevented financial institutions from auctioning land without having cleared this first with the provincial administration (1992:378). As Wanjala (2000) points out, this was tantamount to making the judiciary subordinate to the executive, and such edicts present means through which patronage can be dispensed. An appeal to the provincial administration or direct to the President can often be made when the family has not been involved in the transaction and the land is being foreclosed (NAK,196; UIK,198) and such a case is reported by Pinckney and Kimuyu (1994:9). As a result auctioning land

[48] A feature of the 'Donde' Bill passed in 2001 is that the total interest charged on a loan should not exceed the principal amount borrowed. See Chapter Six for a brief discussion of the 'Donde' Bill. Source: Kenyan Banks Stop Lending over Donde Act, The East African, 24th September, 2001

[49] One informant had been taken to civil jail in October 2000 for non-payment of a debt to a supplier from whom he had obtained inputs for the local coffee factory. The original debt was Kshs750,000. By the time he had sold a piece of land for some Kshs300,000 and used at least another Kshs250,000 to make repayments, the debt was still in the region of Kshs750,000 as not only interest, but lawyers and court costs and the charges for him being in civil jail for six months had also been added to the debt.

can take many years - "in Kenya things don't always go according to the law" (NAK,196). A local bank manager reported an attempt to divert his pursuit of a debtor, although the case did not involve land: a young man who was a member of the local KANU Youth Wing had borrowed for his businesses (a bar and second-hand shoe stall). When the manager pursued him, a prominent local KANU politician telephoned the manager suggesting that the President could pay the money. The manager was particularly keen to pursue this man because he had been boasting locally that he would "see what the manager would do with him" (UYN,213). The manager was not diverted, saying that he only wanted to be repaid, and the young man spent three weeks in civil jail before the money was paid.

As a result of these problems with rural land, banks generally prefer to take land that is inside urban or municipal boundaries. This land is more likely to be have been purchased and therefore not to be part of family and community ties which would prevent its disposal. However, the difficulties of actual foreclosure by the banks - even of a piece of commercial land within municipal boundaries - were well illustrated during the course of the fieldwork.[50] A local businessman owned a bar and restaurant just outside the town. He had borrowed against the property and been unable to repay the loan. The property was put up for auction, and this was held in front of the post office in Karatina in July 2000. The auction was disturbed by drunkards and did not proceed. An informant, who had attended the auction and who was a close associate of the businessman, later explaind that "we have our ways of diverting these things", arguing that employing such tactics to abort the auction was a "question of survival" (RJN, 170).

The second problem that the banks have had to deal with has been the problem of false title deeds. Kanyinga has documented in detail how the political system uses land as a tool of patronage through "grants from above" (1998:50). The 'grabbing' of public land in the mid-1990s became a public scandal with many reports in the national newspapers on the subject.[51] One explanation of this phenomenon is that it was a response to the suspension of aid by donors in 1991 and the arrival of multi-party politics. According to Klopp (2000), this led to a search for new sources of patronage by the ruling elite with which to satisfy the greater bargaining power that competition for political power had produced.

[50] There were many means of thwarting the system. One anecdotal story was that of a man who had divided his plot into two and registered two titles, using one to secure a loan. His house was built just over the edge of one of the plots making it un-sellable when the bank came to foreclose.
[51] See, for example, Robert Shaw in Daily Nation of 6th March 1994, "Why Kenya's looting brigade now has its eyes on public land".

As titles to pieces of public land were handed out, and used to obtain loans, banks had great difficulty in knowing whether they were genuine. While the most high profile cases of such land grabbing were of land in and around Nairobi, such as the Karura Forest (Klopp, 2000), areas such as Karatina have not been immune. During the period of the fieldwork, a road reserve at the junction of two main roads was fenced off and the foundations for a petrol station built there.

The third main factor affecting the acceptability of land as collateral has been land clashes in the Rift Valley and at the Coast in the run-up to elections in 1992 and in 1997 respectively (Ogachi, 1999; Southall, 1999; Klopp, 2001). It has been shown above that land is central to politics and these conflicts were central to the transition to political liberalisation. In the post-independence period it was the Kikuyu who were seen as a potential political threat and who, as agriculturalists, were hungry for land and eager to leave the over-crowded Central Province. (Kanyinga, 2000). As a result, in the 1960s and 1970s, they settled in the Rift Valley on settlement schemes, such as the Million Acres Scheme. While Kenyatta had not been able to solve the land question, as mentioned above, he was able to "freeze" it through the political alliances and rewards that he offered minority groups. Since the beginning of the Moi regime in 1978, "the political elites ... had disinterred and dusted off the land question as a political tool to fight those opposed to them" (Kanyinga, 2000:56). This resulted in the resurgence of the *majimbo* (regionalist) project and ethnic differences that had earlier threatened the eviction of Kikuyus from the Rift Valley (Chege, 1994:69). It was these areas that were the focus of "ethnic clashes" in 1992 (Africa Watch and Human Rights Watch, 1993; Ogachi, 1999). Given the identification of the Kikuyus with opposition political parties, the violence was intended to drive out Kikuyus who had settled in the Rift Valley, because they were a threat to the electoral chances of loyal KANU politicians (Kenya Human Rights Commission, 1996).

These developments are a national problem, and a feature of the broader political economy in which land in Kenya is rooted. Although land clashes have not directly affected the Mathira area, there were nonetheless implications for those Kikuyu who owned plots in the Rift Valley but did not live there, as they would now find it difficult to use these plots as collateral. Although bank managers argue that the viability of the investment project is far more important than the availability of collateral, and that they will do their utmost to find ways to fund viable projects, it is a legal requirement that banks have adequate security.

From the point of view of bankers, the difficulties of foreclosing on lineage land and the willingness of defaulters to use whatever tactics they can to prevent auctioning, has produced a situation where rural land is no longer acceptable as collateral. This reluctance to use land as collateral has been compounded by wider political developments in which land has been a tool of patronage and political conflict.

8.5 Conclusion

This chapter has examined the reasons underlying the limited use of land as collateral – a finding of Chapter Seven - from both the perspectives of borrowers and lenders.

The Swynnerton Plan, and the subsequent phase of land registration and titling, sought to make rights to land exclusive and alienable in order for security of tenure to allow investment to take place, and land to be mortgaged to obtain credit. However, land reform in the Kikuyu areas was essentially a political process responding to the need to deal with Mau Mau and offer the Kikuyu land security to placate their fears of further European expansion. This produced a fundamental contradiction in policy, since those who had struggled for their land rights were expected to risk them as collateral for loans.

The experience of land titling has produced a complex situation. In our survey, 81% had access to land via family relationships but only 39% of household heads actually had titles in their name. A further 42% had access via their father or another family member. The process of land reform has failed to deal adequately with customary land rights, and claims on the basis of these are particularly strong. Indeed, the Land Control Boards, which were set up to implement the policy and enable economic development, have instead done more to uphold customary rights. Given the importance of land as a social safety net, it is unsurprising that social considerations have become key to their deliberations. Moreover, both men and women have been able to use customary rights to prevent the mortgage or disposal of land in which they have an interest.

At one level it could be argued that these problems simply represent an increase in transactions costs for banks, yet on closer reflection such an interpretation of the situation seems to be inadequate. First, it is clear that the social and cultural importance of land means it is an asset that cannot be put in jeopardy. This element of risk refers not simply to the fact that a borrower may not manage to pay, but to the fundamental uncertainty of a borrowing environment in which one has little power, and in which the rules of the game may also change. The failure of the Kikuyu-owned banks in the banking crises of the 1980s and early 1990s is relevant here (see Chapter Five). An informant who commented that "anything is possible in this country – you know we have had mountains move" (FGD6), further underlines this concern.

It therefore seems undeniable that the demand for credit backed by land is severely constrained by the factors cited above. Yet the view that this situation is one where transactions costs are out of hand may lead to the conclusion that it is necessary to improve the legal system and foreclosure processes in order to make land a viable form of collateral. But adopting such a position would in turn neglect the fact that the underlying social relations go beyond any simple analysis of transactions costs. As Shipton states: "the mortgage credo, seemingly so logical, begins to look increasingly foreign and fantastic, and the complex of institutions built around it increasingly futile" (1992:359).

The complexity of social relations around land and its cultural meaning have resulted in a situation in which few potential borrowers are both willing and able to borrow against land, and lenders are increasingly wary of accepting it. In part, this also explains why mutuals have become popular with borrowers in the 1990s, since borrowing from them does not require that land be put at risk. The next chapter investigates users preferences for mutuals in depth.

Chapter 9 Understanding Mutuality

"If I take my money to the bank then when I have a problem, who will help me?" (HH39W)

In Chapter Six it was shown that the outreach of the mutual sector in Mathira was considerable – accounting for approximately one half of the number of savings accounts and between 20% and 30% of the value of funds intermediated. Chapter Seven confirmed the importance of ROSCAs and ASCAs, with almost half of the sample using ROSCAs, 70% saving in a mutual and 38% borrowing from them. This chapter investigates the reasons for this extensive use of mutuals.

The available evidence suggests that there has been increasing provision of financial services through the mutual sector in the 1990s – both formally through SACCOs and informally through ROSCAs and ASCAs. The explanation lies in a combination of factors and it is argued that these factors are fundamentally related to the organisational form of mutuals discussed in Chapter Three.

First, on the savings side, the way in which the banks raised minimum balances gives a transactions cost argument for moving to mutuals. However, it was seen in Chapter Six that the cost of loans from mutuals was not lower than the banks. This implies that borrower transactions costs alone cannot explain these choices.

Respondents explained their preferences for mutuals as resulting from a number of factors. First, they explained that using these mechanisms imposed discipline on their saving. Second, that these mechanisms gave them better access to loans. Third, that mutuals can provide access to a social safety net through the social networks that they create and this has been particularly important since the deterioration of the economy since 1997. Finally, that mutuals do not require land or other major assets as collateral. Borrowing from them does not create downside risks that may be exacerbated by the uncertain environment –this aspect was discussed in Chapter Eight.

However, to ascribe these preferences for mutuals to the economic downturn alone would be to overlook their importance as an enduring feature of the financial landscape. The evidence suggests that mutuals embody a set of social relationships very different to those of banks because they are owned and managed by their members. This gives users voice in setting the rules and the ability to negotiate when it comes to enforcement. These characteristics make mutuals particularly important in mitigating risk in an environment of uncertainty. But the option of using mutuals to mitigate risk would not be available if the underlying social networks and social relations were not structured in ways that allowed collective action of this type to emerge.

The final section of the chapter goes on to examine the relationship between rural SACCOs and politics, demonstrating that it is their organisational form that makes them an important means of mobilising support and rewarding clients.

9.1 Trends in provision: SACCOs, ASCAs and ROSCAs in the 1990s

A mixture of sources suggest that mutuals have become increasingly numerous and popular over the 1990s.

First, national data on the SACCO sector helps to illustrate a steady rise in membership. Table 9.1 gives data for rural SACCOs which suggests a doubling of membership in the 1980s followed by a further rise of 30% between 1990 and 1997 (see also (Alila and Obado, 1990)). However, it is important to be careful with this data as it may overestimate growth, since failing or dormant SACCOs are rarely closed down and removed from the figures quickly. While the table suggests a trebling of deposits between 1990 and 1995 this represents only a 10% growth in real terms due to the rapid inflation of the early 1990s. However, while savings did grow by 19% in real terms between 1990 and 1997, the level of loans outstanding actually fell by 12%.

Table 9.1: Rural SACCO membership, savings and loans 1975-1997

Year	Membership	Balance of savings accs (m Kshs)	Number of loans	Loan balance (m Kshs)
1975	85,000	56	74,000	62
1980	374,000	311	92,000	252
1985	541,000	726	104,000	388
1990	665,000	992	120,000(est)	547
1995	821,000	3094	131,000	919
1997	863,000	4010	119,000	1630

Source: International Co-operative Alliance, 1998:25

In the urban SACCO sector, there was a 32% growth in the number of SACCOs between 1990 and 1997 with membership growth of 29%. The 1998 provisional figures suggest a decline in the number of SACCOs and membership compared to 1997. Explanations for this may include retrenchment in the public sector and the removal of SACCOs that were either dormant or failing. Share capital fell in value by 20% in real terms between 1990 and 1995 but had recovered to the 1990 level by 1997. With higher numbers of members this means lower mean balances per member, but it is difficult to know whether this is due to the effects of inflation or the influx of new members. The value of loans fell similarly in real terms between 1990 and 1995, but had been restored to the 1990 value by 1997.

Table 9.2: Urban SACCO numbers, membership, share capital and loans 1988-1998

Year	Number of societies	Membership	Share capital (m Kshs)	Loan balance (m Kshs)
1988	1725	811,452	7,741	5,689
1990	1828	948,644	8,515	8,382
1995	2215	1,120,056	19,339	17,625
1997	2418	1,229,862	29,254	21,614
1998*	2003	1,046,412	28,595	22,856

*-provisional figures

Source: Kenya Union of Savings and Credit Co-operatives Ltd (no date)

Despite these caveats the data does suggest membership growth even if amounts intermediated suffered through inflation. For Mathira, the date of registration of SACCOs helps to demonstrate their emergence in the 1990s. Table 9.3 shows that the two tea SACCOs were registered in the early 1990s, and a new coffee SACCO was registered in 2000, although it was still recruiting members at the time of the research. Employers who have been in the area for some time have registered SACCOs for employees much earlier. Jamii Hospital opened in the 1990s and registered an employee SACCO in the mid-1990s.

But the main area of expansion has been in the business and transport sector. Part of the explanation for these new SACCOs is the liberalisation of the co-operative legislation and the reduction of the role of government in the running of SACCOs (see Chapter Five). But these changes cannot explain the parallel growth of ROSCAs and ASCAs, to which we now turn.

Table 9.3: Registration dates for SACCOs in and around Karatina

SACCO	Date of registration
Cash crops:	
Nyeri Farmers (Coffee)	1960s – new SACCO 1998
Mathira Coffee Farmers (no services yet available)	2000
Mathira Tea Growers SACCO	1990
Nyeri Tea Growers SACCO	1992
Employee based:	
Wikio (Town council)	1978
Uringiti (Tumutumu Hospital staff)	1979
Tumutumu (non teaching staff at Tumutumu schools)	1987
Nyeri District Teachers	1976
Jamii Hospital	1995
Transport and Business:	
2NK	1993
Karombu	1996
Mathira Rural Matatus (MRM)	1996
Nyakati	1998
Biashara	1995
Mt Kenya Investors	1995

Source: Divisional Co-operative Office

Chapter Six indicated the growth of MFO managed ASCA programmes from their start in 1994 to their coverage of some 29,000 members in 2000. These figures are again likely to be overestimates because members in default and dormant groups are not quickly removed. However, evidence from many qualitative interviews indicated that respondents had observed patterns of increasing ROSCA and ASCA use. Many also related this development to the financial difficulties that households were facing.

> *WAC,158 (a local sub-chief): He thought that there had been an increase in the number of groups in the area and that this was due to the lack of money. While people could not manage the few thousand needed for school fees, they could contribute the few hundred that they needed to go to the group in order to save for the school fees.*

Although a number of women reported having reduced the number of ROSCAs in which they participated due to economic hardship, they had rarely ceased to use them altogether. Rather, the implication of those who reported the increasing use of groups was that those who had not previously joined them, particularly men, were now doing so.

> *FGD4 (better off men in tea zone): "men never used to be in groups, mostly they were for women, but then there were money problems due to economic hardships and men have joined groups to get money for the requirements such as school fees, and even for buying cooking fat. ...Men were happy to see the way that women's groups were contributing to building homes and houses. Before the 1980s men did not join women's groups since they did not want to mix with women as they felt this meant that they were lowering their dignity".*

An employee of the Co-operative Bank who worked with SACCOs, explained that after seeing the benefit of pooling their savings, some groups then see the need to formalise their operations into a SACCO (DNO,51). This trend was clearly evident among the transport SACCOs , which had emerged out of self-help groups of *matatu* owners on a particular route. The move to this form of organisation in the *matatu* industry arose in the 1980s. In 1998 the nationwide Matatu Vehicle Owners Association was banned for organising countrywide strikes in protest against the government. Thereafter touts had taken over the *matatu* stages and were controlling the business. Drivers would often collude with touts and deny owners earnings from the trips they had made. As a result, a self-help group of Nissan minivan owners formed in Karatina in 1993. They registered as an association with the Ministry of Culture and Social Services, set up an office and recruited members. They then ejected the touts from the stage and took back control of their vehicles. The self-help group started with a ROSCA (or merry-go-round) partly because they needed an activity to register themselves with. As they developed they decided to register as 2NK SACCO (AAM,056).

A contributory factor to the emergence of some of these SACCOs has been the support of people who had experience of SACCOs in other settings – especially in employment. Key players in two SACCOs – Karombu and Mt Kenya Investors SACCO – had retired or resigned from formal employment and moved back to their home areas. They had the skills and knowledge of SACCO operation to stimulate and support their start up.

This section has presented evidence from a variety of sources that suggests that there has been significant growth in the membership of SACCOs, ROSCA and ASCAs in the 1990s. The next sections explore explanations for this trend.

9.2 Saving in mutuals: cost and discipline

Two of the reasons that informants cited for preferring mutuals to banks were the costs of saving in banks and the lack of discipline. These are now discussed in turn.

9.2.1 The transactions costs of saving

The behaviour of the banks in terms of the minimum balances that customers were expected to hold in their deposit accounts in order to avoid being charged fees, was explained in Chapter Six. The implementation of minimum balances for the two internationally owned banks was part of a strategy to target services towards personal customers with "high net worth". During 1999 and 2000, all of the four main banks in Karatina increased their minimum balances on deposit accounts.

The minimum balance is the level at which there are no charges made on the account. If the balance drops below this level then charges are made for the running of the account. The effect of this increase in minimum balances was that the customer had either to put more savings into the account, or pay the charges. For example, at the Co-operative Bank, charges were Kshs300 per month. The minimum balance for a savings account in the Co-operative Bank rose from Kshs1000 to Kshs3000 in November 1999 and then in steps during 2000 to a peak of Kshs6500 in August 2000. Thus a customer who had Kshs1500 in her account would after five months have nothing.

> *HH122W: "If you don't go on putting your money in the bank then they eat your money through charges".*

As Barclays increased its minimum balance to Kshs10,000, so in a small town such as Karatina it was perceived as a bank which did not want local people's accounts. One of the local bank managers himself reported that he thought that the minimum balance had driven a lot of people away and even the local government staff felt that they were not being "cared for". In a town with only a Divisional headquarters where many government staff earned about Kshs 10,000 per month, the minimum balance represented an entire months pay that must remain in the bank untouched.

In the interviews, respondents were asked which accounts they had closed or stopped using in the last two years. Out of the 68 individuals, seven (10.3%) reported having closed a bank account due to the raising of the minimum balance or the charges that were being made on the savings account. Three of these were in the two rural sub-locations and four in Karatina town. One of the seven had opened another bank account specifically designed to be targeted at small business people, and related to access to their microfinance loan product[52]. Two more had moved to a Building Society that had a very low minimum balance. While some respondents had opened accounts in the last two years, in most cases this involved a shift from one bank to another. While this does not suggest that individuals moved their savings out of the formal sector this tended to represent a shift away from the "mainstream" national banks to alternatives which were targeting their services more directly at the smaller saver, such as Equity Building Society, and which had a low minimum balances of Kshs500. The bad publicity which increasing minimum balances generated even led to a Landmark Motion in Parliament which could have resulted in a bill to prevent minimum balances rising above Kshs1000 (Weekly Review, 1999).

9.2.2 Savings discipline and security

A further reason given for preferring to use groups rather than a bank was that saving in banks did not enforce sufficient discipline in saving. When it is hard to accumulate money beyond everyday needs, the discipline to save for necessary expenditure becomes not only harder but also more necessary. Velez-Ibanez reports comparable circumstances

52 The Co-operative Bank with assistance from donors designed a savings account called "Haba na Haba" with a minimum balance of Kshs1000 and much easier terms and conditions on deposits and withdrawals. The product was not promoted extensively by staff at the branch who saw the account as being linked to people who wanted to take a Biashara loan, an individual loan specifically designed for small businesses. They preferred people to open the normal savings account which in 1999 had a minimum balance of Kshs2000 but which rose during 2000 to a peak of Kshs6500. The Swahili saying "Haba na Haba kujaza kibaba" means "little by little the pot is filled".

in Mexico where many lived beyond their means. As a result the forced savings element of ROSCAs, supported by social pressure, was important in enabling people to overcome the desire to spend (Velez-Ibanez, 1983).

Group based finance offers not only the discipline of regular saving but also restricts access to the funds in ways that the bank does not:

> *IDN,AAW,RGN,058 (committee members of MRM SACCO): stressed that in the SACCO you are forced to save or "aided to save". As others are saving so you are also encouraged to do so. If you save on your own then you can put Kshs100 in the bank today and go back for it tomorrow.*

This preference for savings that are illiquid has been noted in the literature (Ardener, 1995; Hospes, 1996) and may be achieved in a number of ways. Hospes notes the choice to save in building materials in Ambon as a means of distancing savings from the claims of relatives. ROSCAs in Mathira were seen as a useful means of ensuring that small amounts were saved rather than consumed:

> *HH62W: "Merry-go-rounds are good because it is difficult to put the money aside for things".*

> *HH98W: "It is easier to save in a group because otherwise I would be tempted to use the money".*

Moreover, ROSCAs can offer women a place to save that is also safe from the claims of husbands or other relatives. There are a number of ways of doing this. Some have groups which their husbands do not know about; others ensure that their husbands do not know when it is their turn to receive the payout, and some groups may have a system where they all agree on what is to be bought, and even go to buy the goods with the member (see also Ardener, 1995).

> *HH86W: Her husband does not know about her merry-go-round because she thought that if he knew about it he might ask for the money and misuse it.*

> *HH53W: When we started discussing groups she said that most women did not like discussing groups because their husbands didn't know about them: "Most*

husbands are drunkards and don't take responsibility for things in the house. If I bring something for the house such as furniture, then he can't go and sell it, but if he knows I will get money then he will demand it.

One of the reasons for the preference for groups over banks was the fact that banks had become more expensive places to save, especially for small amounts. Moreover, even once the money had been put there the saver had no idea whether the bank would change its minimum balance and start charging fees. Alongside this, the economy was not performing well and access to lump sums through for example cash crop payouts had declined. In this context groups were an important means of imposing discipline in saving – both in terms of putting money away and not withdrawing it: elements of discipline which the bank could not offer but that people increasingly felt the need to impose on themselves.

9.3 Borrowing from mutuals

This section explores the different reasons why borrowers prefer to take loans from mutuals rather than banks. The issue of price was discussed in Chapter Six, where it was shown that the price of borrowing from SACCOs was much higher than the nominal declining balance interest rate (usually 12%), but that members usually did not realise this because they did not take into account the opportunity cost of their savings. On the other hand, borrowing from the MFO managed ASCAs and independent ASCAs was expensive (15% upwards) – with high nominal and effective interest rates. Hence ASCA borrowing cannot be explained by price alone. SACCO borrowing could be explained by reference to cognitive failure on the part of clients. However, if a loan from a bank cannot actually be obtained then the relative price is immaterial. Access is discussed first.

This leads on to a discussion of the organisational form of mutuals and the implications of the ways in which rules in mutuals are formulated and enforced. Mutuals allow members voice and this is a major reason why they prefer to use them. It is because of this that mutuals play an important role in creating a social safety net for borrowers. Members can both reduce the risks of borrowing and create social networks that offer them new avenues of financial and social support to deal with the risks and uncertainties that they face.

9.3.1 Access to loans

The first, main reason that informants preferred mutuals to banks was their ability to obtain loans. Membership organisations in the mutual sector have formal constitutions or are constituted on the basis that once the conditions of access are fulfilled then access is guaranteed. This fundamentally differs from the situation with any other type of financial intermediary. In all other types ownership is with shareholders (in the case of the banks); the state (in the case of parastatals); or the individual (in the case of a moneylender). In all of these forms, the decision to lend is taken either by those appointed by the owners or by the owner themselves. As a result, the criteria for lending are adapted to safeguard their interests. In the case of mutuals the criteria for lending are devised by the members and are based on the norm of equal access for all.

First, the evidence shows that access to loans from formal sector intermediaries such as the banks and AFC is limited. Chapter Six maintains that the proportion of savings lent locally was low by comparison with other types of intermediary, and the ratio of savers to borrowers in intermediaries (Chapter Seven) was lowest for banks at 16.2%. Indeed, the manager of an NBFI, which was only taking deposits and was not able to give loans, explained that this was one reason why people could not deposit their money in his branch (YOK, 078).

This evidence underlines the view of informants that:

> *FGD4 (better off men in Chehe): It is not possible to get loans from the banks or AFC (which according to them had been pulled down by rich people) "trying to get a loan from these organisations is like milking an elephant!"*

By contrast, the data showed that respondents were much more likely to get loans from ROSCAs, cash crop SACCOs and friends and relatives. While the use of employee SACCOs and ASCAs was not necessarily high, it was access that many used to explain their membership.

> *HH132FHH: explained that she saves in a managed ASCA because she could borrow according her savings. If she needed a loan then she would not have a*

problem getting one. Indeed she had borrowed Kshs10,000 from the group in January to pay for school fees for her brother because she had nowhere else to borrow and also did it as a trial to see if she really would get the loan. She thought that it was easy to explain to the women in the group what she needed the loan for.

The difference between access to a loan through a bank and in a SACCO was neatly summarised as follows:

"Nobody is there to deny you a loan... it is not like a bank, because in a SACCO you have a right but in a bank it is not a right but a privilege" (IAK, 189).

Similarly, members of managed ASCAs knew that, as long as their shares were at the correct level and the money was available, they could get a loan the following month once they had applied (e.g. HH76FHH). Hence while actually obtaining the loan may depend on the liquidity status of an ASCA or SACCO, this constraint is of a very different order when compared to the ease with which a bank manager can refuse a loan.

9.3.2 Ownership and voice in rules and enforcement

The fact that members own the funds in the group means that they set the lending policies and can do this in the light of their own objectives and interests. One of the key decisions that they make is over the price of loans:

Members of MEDA (201) – an ASCA of businessmen in Karatina: The group had instituted a "financial strains committee" and one of the results of this had been to reduce the interest rate to 6.7% flat per annum i.e. a flat rate of 20% for a three year loan. "We know our problems, we dictate the interest rate". When I challenged them that once they took into account the fact that the loan was only twice their savings then this made the effective interest rate on the net borrowing much higher, their response was to underline the fact that it is they who get the dividend anyway. As one of the members emphasised (IDN, 194): in the group it is easy to access money and terms are strict but not like the bank because the strictness was for their own benefit to keep discipline: "better we struggle when we are helping ourselves... everything is within us, nothing is going outside.... if we had *taken (a loan) from the bank the interest would have gone kapisa! (completely) ...which bank is going to pay you for taking a loan from them? Nothing from the group goes out. When you are taking it to the bank the interest has gone to pay the shareholders. We divide it out to ourselves as we are the shareholders... With banks you are told what to do but it is our decision what to do. Banks don't care but we are able to shape our own destiny. With banks there is nothing like that, as long a you are doing well they are happy with you but if they see you going down they will not help you at a time of need but accelerate your going down".*

Similarly, a worker with the SACCO sector pointed out that it is the members of SACCOs who vote for a change in interest rates if there is to be one (COW,230). This explanation makes a number of important points. The members of MEDA point out that they can set the price in their own interests, as they are the owners. Given the evidence on the instability of interest rates in the banking sector in the 1990s presented in Chapter Six, their ability to control the interest rate was clearly important as a means of reducing the risks of borrowing. Indeed the "financial strains committee" was a result of them exercising voice about the previous interest rate.

The members also pointed out that it was they who received the interest in the form of a dividend. As discussed in Chapter Six (p156) this is also an explanation for the high interest rates that they set. The fact that interest comes back to the members led another group to set up its own ASCA with the intention of reducing the member's borrowing from an MFO:

> *JUN,004: This group had an ASCA of its own and was also taking loans from one of the mainstream MFOs. They explained that the ASCA fund was growing and they felt that they might not need to turn to the MFO for loans in the future, or they would only need to take smaller loans, as the ASCA would cater to their needs. They said that this meant that they would be paying themselves interest instead of paying it to the MFO.*

Finally, the MEDA members pointed out that in the event that a member has a problem the bank is not likely to assist him further but to "accelerate your going down". Mutuals are seen as being there to support their members and there is thus some leniency in the way they deal with defaulters. At a minimum, members have the opportunity to present their case, i.e. to exercise voice.

HH53W: She said that she preferred women's groups (to other places to get loans) because if she was unable to pay she would tell them when she could pay and they would accept.

MAK, NGE, 075: the reason for getting into groups is that they can help if something goes wrong eg if your house burns down then they can give you a hearing whereas the bank cannot, so there is some flexibility. Even groups understand better than SACCOs. A SACCO is more rigid and you can get money sooner from a giteti.

Groups are therefore seen as giving the member an opportunity to explain the situation and negotiate the terms of repayment, along with a degree of leniency that can mitigate the potential risks of borrowing. However, degrees of leniency varied. The ROSCAs in Karatina market appeared to vary in the strictness with which contributions had to be made. Some charged fines for late contributions and others were more "patient" *(kurekera)* with members who were late with their contribution if they gave a good reason. It was not possible to identify what might have brought about these differences in the character of groups. For example, it was not necessarily the case that those groups that were patient knew each other better than groups that were not.

Furthermore, the reasons given also indicate that groups by setting their own rules are able to isolate themselves from the banking system in particular. By setting interest rates themselves, distributing the profits among themselves, and giving members the opportunity for voice, they have been able to resist what they see as the means through which banks exploit them.

9.3.3 Mutualist finance as a social safety net

In Chapter Two the potential for ROSCAs to operate as a means of risk diversification was discussed with reference to the work of writers such as Platteau. The analysis of ROSCAs by both Besley and Platteau concentrated on an analysis of the ROSCA mechanism itself and the extent to which risk could be diversified through that mechanism. Their analysis concluded that ROSCAs in themselves, were not effective in diversifying risk. But this overlooks the way in which people actually use groups to protect themselves against risk. This is primarily by developing their social networks as a means to developing social support mechanisms as has been discussed in the literature on ROSCAs (Ardener, 1995).

Respondents preferred to borrow from mutual finance arrangements because the risks of borrowing in the event of repayment difficulties were of a different nature and because they were able to reduce them through negotiation. It is useful to distinguish the different ways in which informants indicated that this could be achieved.

First, in some ROSCAs it is possible to make a claim on the fund that is to be distributed that week on the basis of need:

> *The Gathaithi Cattle Buyers Group started in 1969 with with the objective of buying grade cattle its 30 male members. By 2000 the group had 742 members and had increased from about 500 in two years. The group had sub-groups, some owned shares and others contributed to a welfare fund. To join, it was necessary to have guarantors in the area and a tangible asset as a guarantee. Members of the main group contributed Kshs200 per month and gave it to between 30 and 40 people each time with a payout of Kshs3600. If a member had a genuine case of need then they could consider whether s/he should get the money that month before the ballot was held. However the informant stressed that it had to be a genuine case of need and this meant that it was necessary for someone else to plead for the person rather than the person himself (AM,157).*

Second is the case where although it may not be the member's turn, she can swap with another member of the group in a side arrangement.

> *HH19W: said that ROSCAs are better than putting your money in the bank because if there is a problem she can just to talk to other members and swap places with them. She may then just go home with the money and she has not had to pay for transport to the post office or anything to withdraw money.*

Third, it may be possible to simply borrow from another member not linked to whether that member is receiving the fund at that time. This is a much clearer example of how the social networks generated by the ROSCA enable individuals to access additional funds.

An alternative but linked case is where members make contributions for each other when they do not have the money to pay.

> *HH106W: She prefers saving with groups because if there is a problem it is harder to withdraw than if you had put the money in the bank, and you would go running there. Instead if you have a problem you can borrow from a friend in the group and the savings remain for your future plans.*

A fourth example is where members may contribute additional funds for a member in need. This kind of support could be substantial as the case of MEDA again illustrates:

> *The Microenterprise Development Association (MEDA) described one of the key rationales for the group as welfare and that if you have a problem then instead of having to go looking for people to help you, the group can help you. In the course of the meeting this was demonstrated. A member of the group who had a matatu was having a problem with the engine and as a result he was struggling to repay his loan. He had already needed to ask his guarantors in the group for assistance. At the end of the meeting, a member raised the issue and proposed that the man be helped*[53]*. The issue was debated and in the process some of his behaviour was censured: he was told not to spend so much time and money playing pool and drinking. The conclusion was that they decided to assist him with Kshs50,000 for a new engine. Members contributed Kshs1500 each on the spot.*

In many ways this is similar to the way in which the village insurance mechanisms with *ad hoc* contributions operate and demonstrates that the relationships in ROSCAs can go beyond the basic 'balanced reciprocity' of ROSCA business.

> *HH39W: explained that while she had left two groups in the last two years because of lack of money she still had five groups of her own. One of these was a cash ROSCA while the others were for household items and utensils. She says she joined because she wanted to be with other people in the village and preferred this because if she had a problem they would also contribute and help her. If she took her money to the bank then she thought that no one could help her when she had a problem..*

[53] Apparently this had not been discussed with anyone prior to the meeting. A rule of the group is that all the business is discussed at the meeting openly and there are no separate meetings for the committee as a result.

In further cases such financial support in the event of emergency need – especially hospitalisation and death - had been organised through the establishment of a welfare fund.

FGD10: Three women were interviewed who were members of a group of 90 businesswomen in Karatina. The group ran a merry-go-round and a welfare fund. The welfare fund contribution was Kshs250 per month and was banked. The merry-go-round contribution was Kshs1000 which was balloted and given to nine people at each meeting. To join it was necessary to have three guarantors in the group and new members had to make a non-refundable contribution equivalent to the average member value of the group's funds. They described the assistance a member would get in the event of a problem. If admitted to hospital the group would give Kshs4,000. If a member died then they would pay to bury her and contribute Kshs8000 if it was a member, their husband or child. They described with great pride how, when a single mother in the group had died recently, they bought the coffin, arranged the transport themselves to go to the funeral in Kieni hiring vehicles in the process (usually a role for men) and paid off the hospital bill. Indeed, members could be fined if they were selected as representatives to attend a funeral and did not go. One of the members commented that the group supports its members during happiness and sadness, morally and financially.

There were many examples where groups offered assistance in the case of death. Many of these cases involved *ad hoc* contributions in the form of mutual aid rather than the establishment of welfare funds. Frequently the support involved the contribution of a coffin. However, it is not simply financial support that is important. The group also acts as a means through which support can be mobilised to meet the social and cultural needs of organising and attending funerals, as the above two examples also demonstrate. The fact that a member could be fined for not attending, clearly underlines the importance of this social aspect.

In SACCOs, the main mechanism for assisting people when they have problems is through emergency loan products. These are usually easily accessible. For example, in the Nyeri Teachers' SACCO, emergency loans are a maximum of Kshs15,000 and can be applied for on the spot. The manager said that for these small amounts it was easy to ask other people waiting in the office to act as guarantors. These loans were usually prioritised by the SACCO and paid out quickly. Emergencies are defined and monitored more tightly in some SACCOs than others but members appreciated the easy availability of these loans.

This contrasts with borrowing from a bank where, in the event of a difficulty, it is unlikely to assist with further funds – however small. From these explanations it becomes clear that joining an ASCA or SACCO in which the member's interests are allied with each others, means that assistance is forthcoming in event of problems arising rather than the shock making the situation worse.

This evidence suggests that, as has been seen elsewhere (e.g. Ardener, 1995), the social networks that ROSCAs and ASCAs enable people to create have multiple uses. When discussing the role of informal finance in mitigating risk in Chapter Two, I referred to Platteau's argument that ROSCAs exemplified a case of balanced reciprocity and that there was little redistributive element within it. I argued that his analysis was for a single cycle and confined to the transactions of the ROSCA itself. Therefore, if balanced reciprocity did not operate, the ROSCA would not adequately act as a mechanism for financial intermediation. Moreover screening would tend to limit the redistributive element in ROSCAs.

The evidence shows that members are screened - especially for the ASCAs with larger funds although these also operated ROSCAs. For example, membership of MEDA required a new member to pay into the fund the same amount as the lowest share value held and at the time this was of the order of Kshs90,000. But this group was equally concerned about people that they considered to be too rich creating problems because they feared they would not pay.[54] Similarly the group of 90 businesswomen now required that Kshs20,000 should be paid in order to join. Thus screening on the basis of ability to pay is key to ensuring the effective operation of the ROSCA or ASCA.

Nevertheless balanced reciprocity clearly does not entirely explain what is happening. Welfare funds, where contributions are regular, clearly demonstrate elements of conditional reciprocity.[55] Mutual aid is also in evidence and ROSCA membership has become a strategy for ensuring a means to access it. A number of informants indicated that these were important aspects of the reasons they joined ROSCAs although they would, of course, prefer that situations such as death or hospitalisation in their family, never arose.

[54] When the local mayor applied to join he was asked if he was prepared to drink tea at Kshs5 in local hotels rather than the more expensive tea in the hotels he was more used to visiting as an indicator of whether or not he was on the same level of other members!
[55] It appeared that in cases where a welfare fund had been properly established a member could not withdraw her contributions when she wished to leave.

In Chapter Six we discussed the more traditional insurance mechanisms that operate at the village level through lineage relations. All household heads are expected to contribute when a person dies, and the payments are set at relatively low levels which all can afford, usually between Kshs20 and Kshs100. Contributions might also be collected in cases of serious hospitalisation or a house being burnt down. These systems cross socio-economic boundaries due to their lineage base and belonging to them is a means of seeking social inclusion. In one better off household both the husband and wife had decided to join their lineage group - the woman explained that she wanted to do this because when she had an occasion (such as a birth or death) she might need the help of the other women in the village [HH19]. It is usual for neighbours to assist by bringing their cooking pots and helping with cooking. While town dwellers may no longer have such direct links to their lineage and its ability to socially mobilise people in the event of death, this has spurred some to create these mechanisms in their groups. A very interesting example was the Muthua Self-Help group.

> *KAI, 103: Muthua Self Help Group consisted mainly of professional people in Karatina - accountants, teachers, bank clerks, doctors, nurses and two small business owners. Its origins were in a burial committee which formed when a mutual friend died. All of his friends on the committee were from outside of Karatina and succeeded in organising the funeral without any assistance from his family who were 170km away in Nyahururu. They then met after the funeral and organised a fund raising event for the family. After that, they thought that since they had done this very successfully and none of them had relatives near by, and hence any of them could be in the circumstances that their friend had been in, that they should meet again. Out of this grew a merry-go-round, and this grew into an ASCA. Later they also joined an MFO and started taking loans.*
>
> *The week I interviewed him, a member of the group had been buried and he described the comprehensive design of their welfare scheme and how it had come into operation. The provisions were as follows:*
>
> - *If a member dies then each member of the group contributes Kshs500.*
> - *If a member's spouse or child dies then each member contributes Kshs300.*
> - *If a member's parents die each member contributes Kshs200.*
>
> *In case of hospitalisation the rules were that:*
>
> - *For a member, the group will pay 30% of the hospital bill to a maximum of Kshs300 per member.*

- *For a spouse or child, the group will pay 30% of the bill to a maximum of Kshs300 per member.*

In the event of the death of a member the group would pay Kshs 6,000 towards a coffin. The system is that the entitlement is taken from the group funds (which is possible because they have an ASCA) and then repaid to the fund by the members.

The member whose wife had just died had a hospital bill of Kshs36,840. Because of the system of payments, her husband who was also a member received Kshs6000 for the coffin and Kshs800 per member i.e. Kshs500 for the wife as a member and Kshs300 because it was his wife. Then under the hospitalisation system he got Kshs300 from each member. In total he received a payout of over Kshs36000. The Muthua SHG members also organised the funeral, providing transport and so on. So he explained that you might lose your spouse or someone close to you but you would not end up poor as a result.

Further, the insurance payouts sought by the better off are also likely to exceed those sought by poorer people in terms of the expense of hospital bills - in terms of the type of care they would seek to get - and funerals that they see as being necessary in terms of their social status. Hence membership of ROSCAs and ASCAs when combined with welfare provisions allows balanced reciprocity to interact with mutual aid.

Finally, while I have argued here that there may be a redistributive element to the wider relationships surrounding ROSCAs rather than within the mechanism itself, it is important to consider whether these groups involve "adverse incorporation" and whether these redistributive elements may actually produce greater inequality (Wood, 1999). There are three reasons for arguing that this does not appear to be a feature of ROSCAs and ASCAs in this context. The first is the nature of screening indicated above – especially in groups where contributions are significant. This process tends to produce groups that are relatively homogeneous in terms of socio-economic status. Where there is more socio-economic diversity contributions tend to remain low. Second, there was no evidence that exit from groups was socially constrained. Many respondents told us that they had left groups – perhaps because they no longer could afford the contributions in multiple groups but these accounts did not refer to any barriers they had faced in leaving. Finally, some of the explanations for ASCAs and SACCOs given above suggest that their creation has been about joint resistance to what is understood as exploitation by wider economic processes: in particular, the behaviour of the banks in terms of minimum balances, interest rates and the distribution of profits.

Conclusion

This evidence clearly demonstrates the importance of mutually based financial intermediaries in terms of their ability to deliver both financial and social support in the event of emergencies. Even if the ROSCA has no welfare fund attached to it, at a minimum it provides a fund to which access can be negotiated on the basis of need. Voice can be exercised and negotiation can occur, either in the formal context of the group or through side arrangements with other members. It is also apparent that the social networks which they enable people to generate are extremely important components of the process.

The evidence from Chapter Seven that membership in ROSCAs in particular is multiple also tends to suggest that the desire to expand financial options can operate hand in hand with the extension of social networks, which in turn multiplies the potential sources of social assistance.

While balanced reciprocity allows for an element of give and take in ROSCA functioning, it appears self-evident that screening will tend to produce this result rather than a redistributive one because ROSCAs would not work without it. However we can also argue that Platteau's analysis appears not to go far enough in capturing the multiple dimensions of ROSCA operation and supports Ardener's (1995) conclusion regarding the inseparability of social and economic aspects. The multiplicity of relationships through which transactions are conducted – whether with the whole group, or in individual arrangements with members - tends to defy attempts to examine the operation of balanced reciprocity only within the ROSCA structure. Shipton also argues that, among the Luo, the multiplicitous nature of local borrowing and lending arrangements, which are often not cash based, defy enumeration and typology but appear to operate on the basis of entrustment and delayed reciprocity (Shipton, 1992:364). Indeed, Velez-Ibanez argues that ROSCAs represent a combined learning process in which learning how to do something does not just represent an output, but also accumulates understanding of how the learning process is achieved. Thus he suggests that ROSCAs allow "trust in mutual trust" to be learned and then expanded (1983:131). Thus ROSCAs and ASCAs can lead to a virtuous circle of expanded social networks. This was apparent in the explanation of a young unmarried man who argued:

> *"Being in a group raises your social status since you are deemed to be a person who can mix with other people. It also shows that you can be trusted since you have been able to stay with other people. It is an issue of having met with people other than your brothers and sisters ....you are regarded as being able to mix with other people and handle them without conflict ... "(FGD2)*

Similarly the idea that reciprocity cannot occur within a ROSCA cycle is to a large extent overcome by the longevity of many ROSCAs. Indeed, it could be argued that an objective of many to participate in 'good' ROSCAs is in order to develop sets of social relationships that enable systems of reciprocity to be developed over time. The ROSCAs that have turned into ASCAs and SACCOs demonstrate this well. Furthermore, there is a wider range of social and economic benefits that can be gained through such participation ranging from how to behave as a woman (see next chapter) or as a means of meeting other business people, or of knowing who are trustworthy business collaborators. Preferences for saving in groups therefore go beyond requirements for discipline and the cost of saving in banks when people feel they can least afford it. Rather they allow for a multiplicity of social relationships and require a broader analytical perspective.

9.4 Cash crop SACCOs in political perspective

This section moves beyond the examination of individual preferences for mutuals to explore the political dynamics behind their establishment and operation. In Chapter Five, the history of the co-operative movement was reviewed with analysts suggesting that its development in the period after independence presented opportunities for political leadership and patronage. The purpose of this section is to demonstrate that this logic has been important to the development of SACCOs in Mathira in the 1990s. This is illustrated by developments in the coffee and tea sectors and these are discussed in turn.

9.4.1 Coffee

"Coffee is a political crop, especially in Mathira" (SKI,221) with chairmanship of societies still being seen as a springboard to local and national politics due in particular to their immediate access to large numbers of farmers[56]. As Hedlund (1992) indicated in his detailed study of the Kibirigwi coffee co-operative some five miles from Karatina in the 1980s, membership of the management committee gives prestige and influence in the local community. However from 1982, civil servants and full time politicians were no longer allowed to run for office in the co-operatives[57], nevertheless politicians would tend to create patron-client relationships with important committee members. While much has been documented of the role of co-operatives prior to the end of the one party state in 1992, little has been written about their role in the 1990s.

The "splitting" of the Mathira Coffee Society into 13 separate societies was explained in Chapter Five. The split was strongly politically motivated. The local MP until 1992 was a man named Kuguru who had been a chairman of the Mathira Farmers Society in the 1970s when he helped to establish the society. During the one party state, his local KANU competitor for the seat was Matu Wamae. In the 1992 election, Wamae ran for the seat under the opposition Democratic Party and won, establishing Mathira (along with Nyeri District as a whole) as a firm opposition zone. Prior to the election neither Kuguru nor Wamae had been "pro-split" although the idea had been circulating for some time. After the election, it is reported that Kuguru and the local KANU leadership started agitating to split the society. This would have the benefit of attempting to split the opposition and for Kuguru to be able to exploit local connections to win support in the future, now that he had lost access to the main Mathira Farmers society. When the society held meetings, it is reported that more people attended than would attend one called by the Provincial Commissioner. So, it is argued, that KANU wanted the society to split in order to minimise the influence of any single individual (EMM, 175).

Wamae had considerable confidence in the depth of local support for the opposition but when Kuguru argued for the split he said that it would benefit farmers. It was then difficult for Wamae to oppose the move as he would be perceived as denying his supporters potential benefits. So Wamae changed his position and became "pro-split". This also fitted

[56] Apparently Moi always used to visit the Mathira Society on visits to Nyeri because it represented some 26,000 farmers.

[57] In Karatina the Chair of the Mathira Farmers Society was also the local MP until this edict was brought in.

with a view that opposition politicians should be against centralised government control and promote liberalisation. But one informant commented that, once a "wave" such as "splitting" gets going there is no stopping it or reasoning with people until it has worked itself out (DNU,224).

The split led to the creation of thirteen societies[58], meaning that the number of leadership positions multiplied from thirteen in the management committee of the Mathira Society to nine members of each of the thirteen new societies. Original intentions had been to split the society into between five and seven societies to ensure their economic viability[59]. But according to the ex-chairman, the members of the Mathira management committee realised that not all would remain chairmen of their local primary societies if the split resulted in five or seven, rather than thirteen societies (SKI,221).

> *"When you are a chairman you have access to the administration etc, you can see the PC [Provincial Commissioner] very easily, so you move from being a nobody one day to being someone people listen to the next. If the President is visiting you will get a seat – even if it is just a stool! Being a chairman is just an opening to everything you ever wanted – getting your child into the best school and so on – that is why people fight over leadership. It is a springboard to other things. Some of the current leaders deliver very few kilos – their interest is not really coffee, but farmers never understand this when it is all being discussed." (NDU, 224)*

This background is important to understand what has been happening in the SACCO sector in the 1990s. It was explained in Chapter Five that the Nyeri Farmers SACCO is the product of the transformation of the Union Banking System and its separation from the Nyeri District Co-operative Union. In 1999 there was a move to establish a SACCO for coffee farmers in Mathira independently of Nyeri Farmers SACCO. The roots of the SACCO lay in the remains of the Mathira coffee society that, once split, remained with an office building which was jointly owned, the board being constituted of the Chairmen of the 13 societies. This board had apparently attempted to form its own SACCO around the

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[58] By early 2001, one of these had again split resulting in a two further primary societies, and a total of 14 in the division. Few local opinions that I heard thought this was sensible, rather that it was further evidence of the problems they were now facing.
[59] The 13 societies have between one and four coffee factories in each. The overheads of vehicles, sitting allowances and so on are therefore borne by a far smaller number of farmers and amount of coffee production. When prices are high they can survive, but with recent collapses in prices, their economic viability is seriously under threat.

time of the split but had not succeeded. It had again applied for registration in January 2000 and received it later that year. The chair explained that:

> *"People of Mathira felt they needed a SACCO to serve their own people...this is fuelled by the era of 'splits'. Nyeri Farmers SACCO, as a product of the District Co-operative Union, is negatively affected and people no longer wanted to do things through the secondary societies. They want something of their own and feel they are being used by other people. With Nyeri Farmers SACCO they were asking whether the benefits they were getting were proportional to what they were putting in. People in Mathira feel that they are superior and are better farmers and were being used by the other parts of the society". However he also acknowledged that being linked to the old "Giant" Mathira society had also made it difficult for them to get the initiative going. (SKI, 221)*

As another informant explained, the feeling that people in Mathira were losing out in Nyeri SACCO was partly due to the fact that it had built new offices in the other divisional headquarters, Mukurweini and Othaya, and was planning to build in Mweiga, while in Karatina it was still renting the same, rather old, building. Because of this they felt that their money was being used to benefit others. So that "they feel that if they have their own then the profits that Nyeri is getting will be ours" (JGN,163). Mathira Coffee Society was registered in mid-2000 at around the time that Nyeri Farmers SACCO was undertaking its membership drive for the transition into the new SACCO. However, it appeared that neither was having much success mainly because coffee farmers had received such small payouts that year.

9.4.2 Tea

The fact that moves to establish SACCOs in Mathira are a means to ensure access to resources both individually and collectively, and with political objectives is further supported by the history of the Tea SACCOs. There are two tea SACCOs now serving Mathira division. Although the Nyeri Tea Growers SACCO Society had only established an office in Mathira in mid-2000, it had provided a mobile service in the division since it began.

Mathira Tea SACCO was registered in 1990 while the Nyeri Tea SACCO, which was an initiative of the KTDA divisional tea committees, was registered in 1992. Apparently, while Nyeri Tea SACCO was first to put in its application for registration this had been delayed in order that Mathira could be registered first. An informant explained that the supporters of the local KANU MP, Kuguru, had lost their positions on the divisional tea committees in the 1991 tea elections - as by this time pressure for multi-party politics was becoming irresistible. Plans to start the Nyeri Tea SACCO were underway but the Headquarters was to be in Othaya. Those who had lost their positions wished to "show that they could do something for the farmer" (JNM,207) and decided to register a Tea SACCO for Mathira. Since Kuguru was the local MP, his supporters were able to mobilise in Mathira using the local administration (which is operated through the Office of the President), since they could no longer use the KTDA committees. At that time Kuguru was the Minister for Home Affairs and Heritage and, it is claimed that he used his political influence to expedite the registration of the Mathira SACCO and delay the registration of the Nyeri Tea Growers SACCO[60].

The rivalry continued and in 1995, Mathira Tea SACCO took Nyeri Tea SACCO to court because the latter wanted to open an office in Karatina and the former said they had been refused permission to open an office in Nyeri. The court ruled that either could open a branch anywhere provided there was tea growing in the area.

In conclusion, these two cases demonstrate the close relationship between rural SACCOs and politics.[61] Rural SACCOs are far more than simply a means of providing financial services. They are a means of mobilising rural voters and creating patronage relations both between local leaders and farmers and between political leaders and local leaders. This at the same time allows the pursuit of private wealth through the patronage opportunities that are both received and in the power of leaders to offer. These characteristics therefore seem to allow for the convergence of the objectives of inclusion and the creation of public benefit that were key to the moral economy debate about the relationship between the achievement of private wealth and civic virtue (see Chapter Five). Moreover, these two examples suggest that political liberalisation has contributed to changing the financial

[60] The old co-operatives policy required that only one co-operative with a particular common bond be established in a district. However having registered Mathira – on a divisional basis – it would no doubt have been extremely difficult for Kuguru as an MP in Nyeri District to refuse to register the Nyeri SACCO, or attempt to specifically exclude it from operating in Mathira, especially given its roots in KTDA.
[61] Interestingly, Hedlund (1992) reports that coffee farmers in Kibirigwi in the 1980s saw KTDA as having no 'politics'.

landscape, with politicians taking advantage of the liberalised environment to use co-operatives and SACCOs to develop rival bases of support.

9.5 Conclusion

This chapter has examined the reasons that informants gave for preferring mutually based financial services to banks. While the transactions costs associated with saving in the bank had been rising, transactions costs do not adequately explain the ongoing growth in the SACCO sector and apparent burgeoning of group-based finance in the late 1990s. The explanations for this are more diverse and complex. The reasons encompass: the need to create discipline in saving and protect that saving by being unable to access it; the ability to gain access to loans as a right; the means to exercise voice both in setting the rules (e.g. the interest rate) and to re-negotiate payment once difficulties strike. These groups also allow members to create expanded social networks through which both financial and social support can be sought at times of crisis.

In terms of analysis information and transactions costs, these non-price features of the services that mutuals offer can only be understood through the transactions costs they involve. But it is difficult to see how the right to access a loan could be valued. By contrast, the conceptual framework of Chapter Three enables these features to be understood and analysed as endemic to the service that mutuals provide. Mutuals offer voice to members who own the organisation. This means that lending policies are the result of negotiation and members themselves set prices. Lending criteria are clearly laid down and if they are met then it is only liquidity constraints that might constrain a member's receipt of a loan. Of course, there is the potential for patronage and favouritism in this process. However the data in Chapter Seven demonstrated the better performance of SACCOs and ASCAs in enabling members to access loans than banks.

It is the way in which mutuals allow voice that enables them to operate in risk reducing ways. This has been especially important during a period of economic downturn when downside risks are enhanced and where political liberalisation has increased aspects of political uncertainty. But these decisions appear to be more than the result of an economic calculus in which members seek financial support. Social support as well as financial is important in the event of crisis especially in cases of illness and death. As user-owned organisations ROSCAs, ASCAs and SACCOs allow the extension of social networks in ways that other forms of intermediation are unable to do.

It is therefore necessary to understand these choices as deeply embedded in social relations. Berry's interpretation of negotiability as resulting from transactions that have multiple meanings and are multi-dimensional in nature was quoted in Chapter Five, and captures well the elements of relationships in mutuals. They are forms of intermediary in which voice allows for negotiation, and negotiability is a key means of managing livelihoods. It has been shown that these transactions are multi-dimensional, encompassing reciprocity and mutual aid as well as social support. Moreover, these relationships are clearly also open-ended and intent on expanding options rather than severing connections that are not immediately beneficial.

Finally, this chapter has argued that cash crop SACCOs are a means through which politics is pursued. Because they are member-owned they offer a group identity and a means through which patronage can be dispensed - both to the group and the individual. Moreover, the evidence here shows how this has been done in the context of increasing liberalisation of the co-operative sector. The Co-operative Act of 1997 did not give any indication as to the criteria for registration of SACCOs with potentially overlapping domains. This *de facto* relaxation of the rules has enabled SACCOs to be used to develop control over local resources and rival bases of political support.

There may appear to be a contradiction between the argument that mutuals, and SACCOs in particular, do not tend to involve relationships of adverse incorporation while at the same time suggesting that they allow systems of patron-client relations to operate. It is important to distinguish between the cash crop SACCOs and other types that do not have the same links to formal politics. Yet the potential for leadership and the achievement of wider social status converge in both cases. Moreover it appears that in the recent economic context of Mathira, mutuals have also been a means to resist processes of exploitation by the banking system through the creation of financial intermediaries that are insulated from it. Hence relationships in SACCOs have a degree of negotiability not evident in banks.

This chapter has demonstrated the ways in which preferences for mutuals can be explained with reference to their organisational form. Member ownership allows social and individual needs to be reflected and expressed. The next chapter goes on to explore the role of gender relations in influencing the use of financial services.

Chapter 10 Gender and Financial Service Use

Evidence of financial service use presented in Chapter Seven suggested that a key socio-economic determinant of ROSCA use was gender. ROSCAs were found to be significantly more likely to be used by women than men, and women were likely to save in a higher number of ROSCAs and to save higher amounts, especially married women - although rural women saved much lower amounts than women in town. This can in part be explained through the more limited access women in general have to formal sector borrowing requiring land as collateral, as was discussed in Chapter Eight. This chapter seeks to further explain these findings using two analytical approaches. First, a framework is developed to analyse the gendered demand for financial services. Second, the reasons for women being greater users of ROSCAs are explored through an analysis of how gender relations better enable them to engage with ROSCA rules and enforcement mechanisms.

In order to develop a framework for the gendered analysis of financial service use, the chapter examines gendered intra-household economic relations in the rural context, as these are critical to an analysis of how individuals in married households engage with markets. The approach is adapted from Pujo (1996) - as explained in Chapter Four. It has three steps, first the gender division of labour and the way it relates to the control of income from different activities is discussed. Second, the gendered division of expenditure responsibilities is analysed. It is the transition from income to expenditure that generates demand for financial services. The third element considers how intra-household financial management actually takes place. This draws on a classification of household financial management systems devised for the European context, which appears to be a useful starting point for analysis of the Mathira case. This analysis allows patterns of control over income, expenditure responsibilities and management systems to be identified which give rise to gendered patterns of demand for financial services.

The second section examines explanations of ROSCA use in more depth. It is well known that women make extensive use of ROSCAs in Kenya (Nelson, 1995; Robertson, 1997) and in many other parts of the world (Ardener and Burman, 1995). Ardener's overview of the 1995 edited volume 'Money-Go-Rounds: The Importance of Rotating Savings and Credit Associations for Women' notes many features of ROSCA operation, for example: (i) the fact that social sanctions such as disgrace and shame act as mechanisms which force people to repay; (ii) the value members place on the social networking and solidarity which ROSCAs offer; (iii) the fact that women's ROSCAs tend to have smaller and lower contributions than men's; (iv) that women often prefer single sex ROSCAs and will actively exclude men; and (v) the opportunities for secrecy that ROSCAs offer in savings accumulation. Ardener also makes a plea for more detailed gendered analysis of ROSCA use.

The second part of the chapter therefore examines some of the social and cultural norms that help explain the differential participation of men and women in ROSCAs. First, the historical and anthropological roots of Kikuyu women's involvement in ROSCAs are traced. The argument then focuses on the role of shame – a factor which women themselves used to explain the differential participation and effectiveness of ROSCAs among men and women. Shame in this context appears to function more effectively as a social sanction among women than among men and hence operates as an enforcement mechanism in women's ROSCAs better than it does in men's. This takes the analysis directly back to the conceptualisation of financial intermediation explained in Chapter Three, where it was argued that different types of financial intermediaries entail different sets of rules, monitoring and enforcement mechanisms. Since shame appears to be a gendered enforcement mechanism this also helps to explain why ROSCAs appear to be more viable as a financial intermediation mechanism among women than among men in this context.

Bringing these two analytical approaches together, I argue that a clear basis for the gender embeddedness of ROSCA use can be established. The sources and uses of the money to which women and men have access, and the wider social context in which they operate, present a more complete account of the gendered use of ROSCAs.

10.1 The analysis of gender as an economic institution in financial markets

The framework developed for analysing gendered patterns of demand for financial services investigates gendered intra-household division of labour, control over income, and expenditure responsibilities before considering how households manage their finances.

The short review of anthropological literature in Chapter Five indicated that men traditionally allocated land to women for food crops. They worked on and managed the land and controlled the output from it. They kept the grain separately and controlled income from the sale of any surplus. Although in part dependent on the size of landholding, increasing land pressure has resulted in migration by men, so women have taken on more responsibility for household provisioning. This has allowed women greater autonomy and control over their own income according to Stamp (1996), though it is not clear that it has altered their bargaining power over male incomes.

The next section considers the current patterns of division of labour and control over income arising from these activities. The data used to establish these patterns was derived from 13 focus group discussions with groups of men and women, in two categories of less well off and better off, in each of the three research areas of Mathira. The data on expenditure responsibilities is derived from the second-round individual interviews with married households in which both husband and wife were interviewed separately about these patterns and about the ways they managed income and expenditure with their partners.

10.1.1 Gender division of labour and control of income: the current situation

By contrast to key anthropological accounts in which the division of labour and control is in the main discussed in relation to subsistence food crops, cash crops and off-farm income are now very important to the household economy. This section uses data which was collected using focus group discussions and participatory research exercises among groups of better off (>200 coffee trees and > 1 acre) and not so well off (<200 coffee trees, <1 acre) women and men in each of the rural locations (see Chapter Four). The division of labour and control of income from the product of this labour was discussed by asking them to make relative assessments of the contributions of men and women. Hence the data represents women and men's views about their work and the control of the income from it. It presents patterns of labour and control of income in relation to the following income sources: coffee, tea, dairy, horticulture, food and casual labour. Given time constraints it was not possible to undertake a more detailed assessment of labour input or control of income. Employment and business as income sources, are briefly reviewed in relation to the main interview data. While this evidence is not exhaustive it presents a sufficient basis on which to proceed with the analysis.

In the coffee zone, women and men did not in general agree about the relative extent of their work on coffee. In better off households with larger farms, both men and women thought they did more work on coffee than their spouses. Women justified their position in relation to support roles such as providing food for workers. Those with smaller *shambas* were more magnanimous about the amount of work carried out by their spouses. Since poorer farmers are less able to afford chemicals they tend not to spray as much, so men perceive that their work is less and they say that women do more. From the women's point of view, where there are few coffee trees (between about 50 and 200), men sometimes grew horticultural crops underneath the coffee and as a result do the weeding of the coffee at the same time as the horticulture so reducing the work left for women.

However there was little disagreement over who received and controlled income from coffee, which was usually a man. As women explained:

> *"Men prefer to go for the money themselves and have the women asking for it. A very few men send their wives [to collect the money] because they know that they themselves might get diverted on the way back via a bar. Men mostly make the decision about what to do with the money. But since the time of the dollar[62] men hide the slips from women if there is a lot of money, but if there is little they show them so that they can't be asking for it. When there is a lot of money you can go there if there is a joint account and find that the husband has told them not to let you withdraw any money. Women can't be given as they are supposed to be asking for it to buy salt and so on" (FGD12).*

62 Since the early 1990s farmers co-operatives have been paid in dollars Prior to this the over-valuation of the exchange rate resulted in a heavy indirect tax (Karanja, 2002). Farmer's revenue rose in the mid-1990s both because the exchange rate was poor and world prices were quite strong.

In the better-off category women estimated that their husbands would usually give them a small proportion of the money, about 20%, but women in the less well off category said they always had to ask for money to buy food and clothes. Men argued that women had a role in making decisions over how the coffee money was used, but that it was mainly men who decided. However, with the collapse of coffee prices in the late 1990s there were a number of reports, including from one of our informants, of women who had been given overall control of the coffee and the income from it by their husbands because it now yielded so little money.

For tea, the story was very similar. While men had the main role in establishing tea farms, after the bushes have matured, women in the better off households did more of the work. Poorer households with smaller farms indicated that the work was more evenly split. Similarly men were the main controllers of the tea income. While many had joint accounts in the tea SACCO, men had the decision making power over them. Women again had to ask for the money and give reasons for needing it although they were sometimes given a small amount of pocket money for their own use. An informant explained that:

> *She takes care of the tea but her husband controls the income. They were given the tea two years ago by her father-in-law and it has helped her because she knows how much they are getting from the payslip. She accompanies him to the tea SACCO to withdraw the money because otherwise she fears he may drink it. While he has never done this with the tea money, she is sure that if he goes alone he won't bring her any money. (HH86W)*

In both Gatundu and Chehe, dairy cows are another important source of household income. Again both men and women thought that they did more of the work in looking after cows. It was not possible to assess in more detail these competing claims. This may be because men emphasise their role in providing cash to buy the cow, provide medicine and buy napier grass, while women emphasise the daily job of cutting and bringing the napier grass.

Control over income from dairy presents an interesting pattern. In better off households in Gatundu, both men and women reported that men were the main controllers of dairy income. But in poorer households both men and women reported that women were the main controllers of this income. In Chehe, on the other hand, better off women said that men usually controlled the income while there husbands said that this income could be given to women because it was small and could be used "anyhow" without affecting the welfare of the home. In the poorer households it was more consistently the case that men controlled this income.

A possible explanation is that with the decline of coffee incomes, dairy income was a relatively more important source of income for better off men in Gatundu , than those in Chehe where tea income has been stable. Moreover, in better off households in Gatundu, dairy income may amount to around Kshs1000 per month and be received through the Kirinyaga Dairy Co-operative. This enables men to collect the money as a lump sum at the month end and retain their membership of the co-operative as a potential source of loans. However, women and men reported that some of this money is immediately given to the wife in order to "encourage them to carry on doing the work" (FGD 12). Whereas, in the poorer households in Gatundu, milk was more likely to be sold locally to neighbours or to milk brokers[63] who came to the door, as these households preferred not to wait for a lump sum at the month end from the co-operative. Since men in these households often had to undertake casual labour it is their wives who received and managed this income. Since these households are less able to feed cows well due to lack of land for fodder, milk yields were likely to be lower. The husband therefore left control of this income to his wife to cater for daily household expenses.

In Gatundu, vegetables were also cultivated as a cash crop because there are water sources that can be used for irrigation and due to its proximity to the main road to Nairobi. This production is for local markets rather than export and mainly involves tomatoes, *sukuma wiki* (a type of kale), green peppers and aubergines. In the poorer households horticulture can be an important source of income and men are more likely to control it even though both men and women reported that the work they did on it was about equal. It is easier for poorer households to rent or borrow a piece of land to grow vegetables than, for example, to afford another cow as virtually all dairy cows are zero-grazed and sources of fodder can be difficult to obtain. So the control of dairy income may be in the hands of the woman whereas the man will control the horticultural income. In the better off households women reported that they do more of the work on horticulture while men thought it was fairly evenly split. However, this horticultural income is in the main controlled by women. This, they argued, was because it was small compared to the coffee income and can be used for

[63] Milk marketing is another area where there has been liberalisation. Private brokers now buy milk and take it to independent dairies. Previously it was Kenya Co-operative Creameries to which all milk from the marketing co-operatives was sold . A pattern reported in the fieldwork has been that brokers go into an area where there is a co-operative and offer high prices for some time until they have undermined the supply of milk to the co-operative. The co-operative closes and the brokers have a captive market, at which point prices are lowered.

daily expenses. This means that women do not necessarily have to ask for money from their husbands for this.

Food crops are in the main the work of women, and this has long been a documented feature of the agricultural division of labour. While this was the main pattern reported, in poorer households in Chehe both men and women reported relatively equal work inputs. It is also the case that women control income from the sale of food crops as they are able to take any crop from the *shamba* and sell it in the market. Since food crop production is in the main for household consumption and this is not an area in which maize and beans are cultivated for sale, the amounts of food sold are relatively small.

Where casual labouring income is the main source of household income, then earnings may be pooled at the end of the day or there is agreement between them on how the money will be used. For those households who undertake casual labour where this income is not the main source for the household, it is the person who goes out to do the labour that controls the income and women can use their income as they wish including on personal expenditure. Indeed, it was reported by poorer women in Gatundu that since it is the husband's responsibility to provide, then if they use the money they have earned in the house then they will be seen to manage the household themselves and fear that he will stop providing and start to use his money for himself.

The second-round survey data for 24 married households showed that only three women did not have direct access to any income source, see Table 10.1. Two of these were very young women who had not been married long; the other was a very old woman whose husband had always been the provider. Nine had access to income via business and five via employment. Kikuyu women have a long history in business and trade (Leakey, 1956; Robertson, 1997). Of the nine in business, three were in businesses in which husbands were also involved. Two were small rural grocery shops, one of these was set up by the husband and run by the wife, and he expected her to utilise the income to run the family and would help buy stock from his salary. In this case the wife reported that she does not disclose all of the income from the shop to her husband for fear that he might take it and drink it. In the other shop the wife did disclose the income to her husband. The third case was an electrical workshop run by the husband and an electrical shop run by his wife. In this case the wife recorded all income and expenditure made from it in a book which they discussed at the end of the day.

In the other six cases of women in business, this involved small scale trading of food and vegetables in two cases where the women visited local markets. The other four cases all involved town-based women. Of these two were trading second-hand clothes in the market, one was trading in new clothes on a small stall and the fourth had a clothes making business. In all of these enterprises women clearly controlled the income.

Table 10.1: Sources of wives' main income in married households

(Number of cases)	Gatundu	Chehe	Town	Total
Employment	2	1	2	5
Business	3	1	5	9
Casual labour	1	4	0	5
Income from crops or dairy	1	1	0	2
None	1	1	1	3
Total	8	8	8	24

Hence in the majority of households (21 out of 24) women had access to an income source although in two of these cases the income source is not independent of the husband's influence. Thus, in 19 out of 24 cases wives have income sources over which they have a considerable degree of control. However, table 10.2 indicates that overall women's reported incomes were approximately 38% of their husband's[64].

Table 10.2: Wives' income as a proportion of husband's income by sub-location

Sub-location	%
Gatundu	43.7
Chehe	31.0
Karatina Town	44.4
Overall	37.6

This evidence suggests two key patterns in the gender division of labour and the control over the income streams that they generate. First, men seek to control the sources of income that generate the largest returns. Second, this means that control of particular income sources, for example, tea, coffee and dairy, can differ depending on wealth categories and changing returns to these crops. Third, that resources that generate small but regular returns and on which women work, may often be assigned to women. These features of income sources in turn mean that the income that men control - and which they may want to save or use to repay loans - tends to involve larger amounts than women, and

[64] Two cases of shops have been excluded because the incomes women reported were not clearly under their own control.

some of these have a lumpy and irregular pattern, as in the case of tea and coffee income. By contrast women control smaller but more regular amounts and are likely to need financial services that can accommodate these flows.

10.1.2 Household expenditure responsibilities and financial management

Having reviewed the sources of income and the control of these income sources within the household, the next step is to examine the allocation of expenditure responsibilities in the household. Data on expenditure responsibilities was collected from both husbands and wives in the 24 married households in the second round survey. Since heads of household who were single, divorced or widowed tended to be responsible for all expenditure these are excluded from this part of the analysis. The categories offered to respondents were five: husband's sole responsibility; husband makes a major contribution and wife makes a minor contribution; equal contributions; wife makes major contribution and husband makes minor contribution; wife's sole responsibility.[65] Of course the results are not entirely consistent and husbands and wives disagree about the extent of their relative contributions. While this can also be seen as evidence of bargaining behaviour, this is not the main focus of the analysis here since the purpose is to reveal broad patterns of expenditure responsibility. Table 10.3 summarises these responses and highlights the extent of agreement between them. 'Agreement' here simply means that the accounts are broadly consistent.

Overall, the table suggests a high level of disagreement over expenditure responsibilities. In none of the categories does the number of households in which there is total agreement over the split in responsibilities reach a half of the 24 households. There is most agreement that asset purchase is a male responsibility. However, there is still considerable disagreement, with men under-reporting women's contribution according to women. The explanation for this might be that women often buy household assets, such as furniture, from ROSCA funds and think that they are contributing to household assets which men overlook. Men on the other hand tend to think of purchase of larger assets such as land, building a house, bicycles and so on.

[65] Stichter used these categories to explore the division of responsibilities in households in Nairobi (Stichter, 1987).

Table 10.3: Household expenditure responsibilities by expenditure category

	Food		Non-food		Clothes for children		School fees		Health		Asset purchase		Farm inputs	
	H's view	W's view	H's view	W's view	H's view	W's view	H's view	W's view	H's view	W's view	H's view	W's view	H's view	W's view
Husband's sole responsibility	13	6	9	6	10	5	12	9	18	9	19	10	12	10
Husband major / wife minor	1	6	2	7	2	2	3	4	1	4	1	3		1
Equal contributions	6	1	8	1	7	3	4	4	5	3	3	7	3	4
Wife major / husband minor	1	5	1	4	0	2		1		1		1		
Wife's sole responsibility	3	4	4	5	3	9		1		6	1	3	2	5
Total	24	22	24	23	22	21	19	19	24	23	24	24	17	20
Other/Not applicable	0	2	0	1	2	3	5	5	0	1	0	0	7	4
Extent of agreement[1]:														
Total agreement	5		5		6		9		8		11		10	
Minor disagreement:	10		6		5		5		6		3		1	
Of which:														
a) Men report lower contribution by women	7		4		2		4		5		2		1	
b) Men report higher contribution by women	3		2		3		1		1		1			
Major disagreement:	9		13		10		4		10		10		9	
Of which:														
a) Men report lower contribution by women	5		11		9		3		4		8		5	
b) Men report higher contribution by women	3		1		1		1		5		2		1	
Summary	Majority of men report sole responsibility but likely that men underestimate contribution made by women.		There is more disagreement in the case of non-food expenditure than food, with women reporting higher relative contributions		Quite strong disagreement, with nine cases where women report that they contribute significantly more than men and only five women agree that it is the man's sole responsibility.		Numbers lower because 5 hhs don't have school going children. Stronger agreement that it is men's responsibility but women's contribution underestimated in 7 cases by men.		Second highest number of men reporting it is their sole responsibility. But still extensive disagreement, however in this case women reported by men to be making higher contributions.		Highest number reporting that it is men's responsibility although there is most agreement in this category still major disagreements and women reporting that they contribute more than men think they do.		Half of men reporting it is their responsibility and second highest degree of agreement but strong minority disagreeing.	

Note to table 10.3: Total agreement is where the accounts by both husbands and wives of their contribution are entirely consistent e.g. they both report that they contribute equally, or one indicates it is the spouse only and the other reports sole responsibility. Minor disagreement is where the accounts they gave are only one category apart – e.g. the husband reports that he has sole responsibility and the wife reports that she makes a minor contribution. Major disagreement is where the categories of responses are more than one category apart. In cases of disagreement, the extent to which women's contribution is under-reported by men and the extent to which men report that women make higher contributions than they do is then reviewed into two categories, both from men's perspective: a) Men report that women make a lower contribution than women report they make; b) Men report that women make a high contribution than women report they make. Totals regarding major disagreement differ where there are differing numbers of husbands and wives responding.

Farm inputs are also more of a male responsibility with agreement over the situation in ten households and twelve cases where men reported sole responsibility. However there is still disagreement in nine households but not all of these fitted the analysis because other family members were involved in input provision.

School fees are also mainly a male responsibility. In this case there is a reasonably high level of agreement with men reporting it as their sole responsibility in two-thirds of cases and the lowest level of major disagreement across all categories. This is likely to reflect the fact that as an important and major expense it is an area that has to be explicitly budgeted and agreed on.

Men also mainly reported health expenditure as their sole responsibility. However the cases of major disagreement show a slightly different pattern to other categories in which men reported that women were making higher relative contributions than they themselves reported. The dynamics here are often that the smaller day to day illnesses of children for which they require a trip to the clinic or some tablets from the local shop, tend to be paid for out of women's pockets but men see themselves as responsible in major cases of illness. It may be that where cases of major illness are not present men do therefore recognise this contribution.

The purchase of food, non-food items and clothes for children are areas where there is least agreement and also categories where fewer men reported that these were their sole responsibility. While these are not cases where men necessarily concede that women have the major responsibility it is clear that responsibility is shared. The findings also indicate quite high levels of major disagreement. This may reflect that where women have their own incomes, they tend to spend on these items and this is not necessarily discussed with the husband. Men may therefore tend to be unaware of some of the expenditure made in these areas.

Table 10.3 concentrates on major areas of expenditure, some other categories of expenditure were included in the survey. Rent, transport, and business investment applied to around one half of the households. Rent was clearly a male responsibility in town-based households. On the other hand transport tends to be an expense that is paid for by whoever is incurring it. So that the greater mobility of men means that they have significantly higher levels of expenditure on transport than were reported by women (see table 10.4). Business investment tends to be another instance where it depends on whose business it is and it is primarily that person's responsibility. Supplementary school expenses such as transport and books were not major expenses and were more likely to be an expense to which women contributed. Finally, is the category of expenditure on clothes for self and spouse. Expenditure on clothes for the husband was the category in which there was overall the highest agreement that this was the husband's responsibility: 21 men and 18 women. There was more disagreement over whose responsibility it was to buy clothes for the woman: the same number of women reported that it was their sole responsibility as men reported that it was their responsibility.

Given the level of disagreement over these household expenditure responsibilities, it would seem likely that these might be reflected in household expenditure reporting. An analysis of the previous month's expenditure, with data collected from husbands and wives separately (for the 21 cases in which data existed), indicated that the mean difference in total reported monthly expenditure was Kshs5365 (see table 10.4). Husbands on average reported higher expenditure than their wives did in all categories and these differences were particularly significant for transport and clothes. These differences can be more easily understood in the light of the above analysis of expenditure responsibilities. It is clear that for transport expenditure men have responsibility for their own expenditure and are more likely to be mobile than women, hence it is a category where women are less likely to be able to make a clear estimate of their husband's expenditure. Similarly where men were purchasing clothes for their family and themselves their wives were less likely to have a clear view of his expenditure on clothes, and men were more likely to be responsible for buying clothes for their wives than their wives were for buying clothes for them. Hence the difference may be explained by the husband's purchase of his own clothes.

Further, men reported that they funded 91% of total household expenditure from their own income, while women reported that just over 50% was funded from their income. These figures are significantly different (5% level) and suggest a major difference in the perspectives of husbands and wives over their contributions. The difference in estimates given in Table 10.4 of Kshs5365 is approximately one-third of mean monthly expenditure reported by men in married households and over a half of that reported by women. How can this be understood?

Table 10.4: Mean difference in monthly expenditure as reported by husbands and wives by expenditure category

Expenditure category (n=21)	Husband's expenditure estimate as % of wife's mean	Mean difference (Kshs) (Husband's less wife's estimate)
Overall expenditure	170	5365
Own food	154	857
Bought food	136	447
Non food household items	182	435
Transport	391	1872*
Clothes	414	5651*
Health	1949	13663
Education	207	1522
Other expenditure	791	1151

A study of household financial management in the UK has classified the mechanisms through which husbands and wives manage income streams to meet necessary household expenditure (Pahl, 1989).[66] From the discussion held with husbands and wives about the ways in which they managed household finances, households have been categorised using Pahl's schema (Table 10.5) since they appeared appropriate to the data. Pahl uses the word management to indicate, "the administration of household finances; an activity which includes the payment of bills for daily living expenses." (ibid:29).

[66] Analysis of this nature could not be found for developing country contexts.

Table 10.5: Classification of household financial management systems

Classification	Definition	Households conforming to this pattern
Independent management	Both have separate sources of income and neither has access to all household funds	This system best characterises the majority of households (15).
Pooling system	All household income is shared and both have access	Three households were found to clearly operate a system of this nature. Two in Chehe were dependent on casual labour undertaken by both husband and wife as their main source of income. They described bringing the money they had earned to the table and deciding what needed to be bought with it. The third case was where the wife manages an electrical shop and the husband operates the related workshop – on a daily businesses they pooled what they had earned and planned how to use it
Housekeeping system	Man usually gives wife a fixed sum for housekeeping and retains the rest	Five cases can be described as operating on this basis however the amount that is provided is not fixed. In two cases the wife had no independent income. However husbands may also give wives money for household expenses even where she also has an independent source of income.
Male whole wage system	Husband manages all household finances	One household where the wife had no independent source of income appeared to fit this type of system it did not appear that the wife handled any cash, rather that the husband was entirely responsible for purchasing everything for the household.

The independent management system best reflects the majority of cases in our data set and clearly reflects elements of the earlier evidence presented from anthropological sources. The "housekeeping" system can however run alongside the independent management system. Even in households where the woman did have an independent income source the husband may give money to the wife for household expenses, as this income might be too small to make a significant contribution.

However the management system classification does not say anything about the knowledge of one partner of the income of the other although Pahl defines control as indicating overall direction of the finances of the household, incorporating the notion of ownership of the money or property under discussion. Burgoyne points out (1990) that management systems shade into one another and are difficult to classify, explaining that differences may relate to attitudes about claims on income even though management remains under the control of one person.[67] This raises the critical question of the relationship between claims and control, and it is differences in attitude on these that make the line between independent management and shared management a very thin one.

The evidence from Mathira suggests that this in turn largely depends on the nature of co-operation and conflict within the household. It therefore depends on a co-operative relationship between husband and wife in how they mix and match their income streams to meet expenditure priorities. One point that is clearly distinct between the European context and that of Mathira, is that the presence of bank or savings accounts was ubiquitous in Pahl's sample and their joint use was common. In Mathira, by contrast, the system is on the whole a cash management system that is supported by the use of accounts but rarely operates in a way in which all money flows into and out of accounts. This suggests that the nature of claims and control may be very different since pooling income in bank accounts requires considerable *a priori* agreement on use, whereas separate cash income streams does not. Under independent management in which women and men control their own income, men and women adopt financial services independently in order to manage these income and expenditure flows which may be means of ensuring separation and entrenching independent control. Indeed the qualitative evidence suggests that this was an important function of financial service use, the very few couples who reported greater joint use of bank accounts tended to be better educated, and either employed or operating a business in town.

In this sample the evidence was mixed and there was a tendency for the accounts of husbands and wives to be more consistent where there was clearly greater discussion between them about the levels of income and division of responsibilities.[68] This often also related to levels of tension and conflict in the household relating to financial and other matters, often men's behaviour. Hence:

> *She says that some time ago when she saw that he drank she realised that they needed to plant tea so as to be able to pay for school fees when the children were older. So they agreed a long time ago that the tea money was mainly for school fees. She says that she doesn't know what he earns although he can ask to see her*

[67] Burgoyne analyses financial management by European couples who have remarried in which she uses categorisations of shared and pooled management. For her the difference between shared management and pooling is an attitudinal one about the claims that each can make in relation to the income of the other. That is, even if income is not pooled so that access is equal, it is putatively pooled in the sense that all is available for household use even if the management arrangements remain separate.
[68] There is insufficient space to present a more detailed analysis of this aspect here.

payslip [both are teachers], although she says that if she asks to see his payslip then he could not show it to her. She complained: "You know, African men are not there to tell you what they have in their pockets – that is their secret...his money is to do what he wants with". (HH90W)

Social norms about household provisioning are contested and men may take the view that it is their responsibility to provide, although women's role in household provision has historically been strong among the Kikuyu (see Chapter Five). A married woman stated it thus:

"Men believe they are going to do everything in the house but they can't manage" and so she explained that she assists him. Her husband expressed a similar view saying it was his responsibility to provide and that his wife's role was to supplement. (HH106)

This belief appears to be particularly important for young men. There appeared to be some sensitivity among young married men in Chehe about the extent to which their wives might have their own income and handle money. This seemed to be a result of the need for young men when married to establish themselves as household heads.

Nevertheless, male behaviour and marital conflict had implications for household expenditure responsibilities. Two young married households, each with a single child, demonstrated this clearly. Both reported that their husbands had not been providing for the household as they had been spending their money on drinking and womanising, instead they had had to buy food either through earning from casual labour or business. In both cases they had taken action: one had returned to her parent's home and the other had complained about her husbands behaviour to local elders. In both cases the situation led to change and when the interviews were held both women reported that their husbands were now taking responsibility for household provisions. After the re-negotiation the women were free to use their own income for their own ends. In these cases both women invoked norms of male household provision to support their cases for change.

This section has suggested that financial management within the household can best be understood as characterised by an independent management system in which each have separate sources of income and neither has access to all household funds. This degree of separation in income streams and expenditure responsibilities also helps to explain why men and women often have rather different views over the extent of their contribution to household expenditure.

Before concluding this section, the situation of single households deserves comment. In both male and female single households the individual tended to be in control of the main income sources and responsible for major expenditures. However, one finding was that in households headed by widows where there were adult but unmarried children who were themselves working - usually as casual labourers – these were making contributions to household expenditure, either by buying food or giving money to their mother. It was notable that one of the expenses that they themselves catered for was buying clothes for themselves.

10.1.3 Gender and household financial management: conclusion

The analysis of the gender division of labour and distribution of income suggests that where both women and men contribute labour and men have primary control of the resources involved in a productive activity, men tend to seek to control the sources of income that produce the highest returns. These income streams in turn enable them to meet their responsibilities for areas of expenditure such as asset purchase, farm inputs, school fees and health care. These expenditures tend to be relatively large and relatively lumpy and their income streams often also have these characteristics. Women are more likely to be allocated streams of income that will enable them to purchase food and other basic household items that are required on a regular basis. Hence their income streams tend to be smaller and more frequent.

Financial management in these households can best be characterised as independent where both men and women have access to their own income sources and neither has access to all household funds. However men have the ability to reallocate income streams where these derive from resources over which they have primary control, but this is constrained by a basic norm that women have control over subsistence food grains. Men also may make claims on women's income. As indicated in Chapter Nine Section 2.2, ROSCAs can be used as a means to resist these claims.

These patterns have implications for financial service use and suggest that the demand for financial services is gendered. Due to the fact that men and women have some independence of access and control over their income streams, the different character of these income streams, and the expenditure responsibilities they must meet with them, they have different demands for savings and loan services.

First, since women's incomes are generally lower than men's and they tend to use this income primarily for household necessities and their personal expenditure, they have smaller amounts to save and the sums they require as lump sums to finance expenditure will also be smaller than men's. However, it was noted in Chapter Seven that women in Karatina town saved significantly more in ROSCAs than their rural counterparts, and some of the analysis here has used a primarily agriculturally based analysis to explain these lower levels of income and saving. Married women's income is also more likely to be used either for immediate requirements or to build a larger sum with which to buy clothes or household items – for example by putting it into a ROSCA:

> *HH22FHHH(a widow): She has left 3 groups in the last couple of years due to lack of money but is still in four. She used to use her casual labour money for groups and through this bought everything in the house: the sofa set, the glass for the windows. She says that casual labour income is "little by little" and she has a mixture of groups for cash and other items to meet her needs. When her husband was alive she was in many groups and she says he never asked about them – he could see that she would bring something for the house e.g. some cups, and therefore that she was assisting.*

Even those who do not have a direct source of their own income may use savings from money given them by another household member to buy food to join a ROSCA:

> *HH109W: She contributes Kshs20 daily from the money her mother-in-law gives her to buy food. She hasn't told her husband but doesn't think he could refuse.*

Women are also likely to need funds quickly and conveniently to meet immediate food or non-food requirements (such as fuel) or small health expenses in relation to children's ailments. Hence the accessibility of savings is also a concern, but for those in ROSCAs this is overcome by borrowing from another member as was explained in Chapter Nine, Section 3.3.

Second, men have access to lumps of income from cash crops payments or salaried employment. In association with this they have greater responsibility for providing for lumpy payments such as school fees and asset purchases. In order to provide for lumpy expenditure, they require places to save their income or places from which they can borrow to meet their credit needs in relation to these requirements.

10.2 ROSCA participation: the role of gendered social norms and sanctions

This section examines reasons for men and women's different participation in ROSCAs. First, the social and cultural history of women and men's collective activity is briefly reviewed. The analysis then moves on to discuss explanations that men and women themselves gave for this difference. The key factor they cited concerned men and women's different response to social norms in relation to repayment and default.

10.2.1 Group participation: a brief review of anthropological evidence

Anthropological sources offer evidence of the social and economic role that groups have played in Kikuyu society. Fisher (1954) describes different types of work groups of either sex involved in agricultural tasks. *Ngwatiō* were small work groups of two or three people who would work together around their gardens with the host providing food. Larger work parties called *gutumana wira* of up to ten people were used to undertake larger tasks or tasks that a farmer wants to complete quickly. Stamp describes *ngwatio* more specifically as the cultivation by women of each other's *shambas*. She also notes that women would jointly co-operate in other types of work such as *matega,* a custom involving the collection by women of firewood for a woman who had just given birth, until she was again capable of collecting it for herself. Other women at the new mother's home would in turn cook for this group. (Stamp, 1975: 24).

Stamp also details the way in which young girls would form their own *ngwatio* groups in which they undertook joint activities. The fact that there were age-sets of women alongside those of men was noted in Chapter Five, Stamp describes how these groups would be formed of girls prior to clitoridectomy, and by moving the focus of girls attention to the group would also weaken their links to their mother's homes. The girls groups would have names corresponding to the age-set *(riika)* names of boys. The function of these groups was to prepare girls for womanhood and to train them in behaviour appropriate to adult women's organizations.

Stamp notes the lack of discussion of women's lodges (*ndundu*) in the main Kikuyu anthropological texts, although she has evidence that they did exist. According to her, *ndundu* in Mitero consisted of women married into a particular lineage and had economic, social and judicial functions. For example it could bring cases against those who broke group regulations and participate in communal functions such as initiation ceremonies. She also cites evidence that there was an important age-grade system operating among women based on circumcision and marital status with highest status being accorded to women whose first child had been circumcised (*nyakinyua*). This system regulated participation in social events and structured aspects of economic activity with *nyakinyua* women being regarded as leaders who were capable of disciplining others. These age-sets gave women power "apart from" men rather than over men, and Robertson argues that their functions both legitimised and perpetuated patriarchal values while also defining a women's sphere and forbidding male entry (Robertson, 1997:243).

Robertson, in reviewing changing patterns of women's collective action over 70 years, argues that women's organisations have shifted away from "a more specific form of gerontocratic organization concerned with producing properly socialized adults and controlling sexuality to a more class-based women's solidarity involved with promoting women's economic activities" (ibid:240). She argues that this process began to take place in the 1930s with the breaking of the link between clitoridectomy and women's group membership. Clitoridectomy was a cultural practice which missionaries amongst others sought to change (Robertson, 1997). While Robertson emphasises the shift to economically motivated groups, this may be a result of the urban focus of her research. Stamp's view (although some 20 years earlier) was that such groups continued to play an important social as well as economic role for women in the rural context (Stamp, 1975).

New forms of organization for women, primarily based in communal labour, started to emerge in the 1940s when the British colonial government identified women as a means of promoting loyalty and reaching men as well as women. It therefore supported the formation of *Maendeleo ya Wanawake* (Kiswahili for 'Progress for Women'). The aim was to mobilise groups of women "who will not be content with their present lot" (Department of Agriculture quoted in Robertson, 1997:248) in order to develop programmes of social development which primarily saw women in their domestic roles[69] and in so doing also put pressure on men to work.

It was after independence that ROSCAs clearly became one of the activities of these groups and in the 1970s and 1980s that women's groups expanded hugely (Robertson, 1997:249). This expansion was in part spurred by the broader ideology and practice of *Harambee* (Kiswahili for pulling together) promoted by the government and often supported by donors (Mwaniki, 1986; Udvardy, 1998). These groups undertook a wide range of activities: joint farming, or joint selling of their labour in agriculture; water projects; accumulation of funds to buy land for cultivation or building; setting up their own co-operatives and so on. Savings funds and ROSCA activities were often a core activity or necessary feature to enable the projects to take place (Maas, 1986; Nelson, 1995; Robertson, 1997).

10.2.2 The social significance of women's participation in groups

The evidence from this research clearly indicated the ongoing social importance of women's groups. As one young man put it: "To a woman a *gitati* is her lifestyle it's her way of life ... a woman is not a woman until she is in a *gitati* " (YIK, S34). Women explained that since women in their groups are not all of the same age, this social context enables them to learn how to speak properly in public and the older women educate the younger women on how to handle things in their homes and discuss problems with their husbands. Their ability to buy a sweater or a smart dress with the ROSCA payout and be dressed smartly and cleanly enables them to gain in self-esteem and mix freely with richer people – "You can become a woman" (FGD3). This was judged important by town women who felt that their men will run away if they were not smart because he would compare her to a woman dressed smartly that he had met in a bar. But although he wants her to dress well he will not provide the money to do this. "Men just need to see the woman in the house ...... so its upon her to get the way to dress and manage the house" (FGD3).

[69] An informant who had been involved in women's groups before independence said that women were encouraged by the Colonial Government to "hide" a little money out of what they were given by their husbands so that they could not be short in the house when the husband was away (MNK,172).

One of the main roles that groups perform for women is that of providing themselves with household utensils. They noted that if you enter the house of a woman who is in a group then it will be noticeable because she will have cups, plates and *sufurias* (cooking pots). Women explained that while a man will be interested in building a house, he would not be concerned with buying what goes inside it. While some men expect those things to be there even though they will never buy them, others will not care: "if there is no cup to drink from he will just tell you to bring the tea in the *sufuria*!"(FGD3). Wainaina underlines the social importance of having such utensils by saying that women without them are "shy to come out and meet with other women, or to allow visitors in to their homes" (quoted in Ardener, 1995:13).

10.2.3 Differing experiences of men and women in ROSCAs

Early on in the fieldwork it became clear that women used ROSCAs more effectively as a mechanism for financial intermediation than in the case of men. Later interviews with members of the main sample, focus group discussions and key informants, therefore sought to explore this differential experience using open-ended questions to ask how informants understood and accounted for this.

The most consistent aspect of their explanations concerned the social consequences of non-payment and how they differed between men and women. Informants said that women felt shame if they were unable to make a contribution to their ROSCA – a woman would rather borrow from a friend to take money to the group than not pay as she did not want to be embarrassed and "spoil" the group. Nor did she want the shame of people coming to take things from her house. As one woman put it:

> *"It is embarrassing to go to a gitati without money ....you are going to be told to give them their money – you have helped yourself and used the money and today you are giving another person, so you have to pay it back. You are going to spoil your name and people will be fearing you - seeing you as someone who doesn't pay, I would prefer to ask someone to give me the money than to go to the gitati without the money...if you can't pay they may come to take your security, your*

TV.... It is not good...it will be auctioned. Would you be happy? The children will be asking questions – how do I answer them?" (EJN,142).

A moneylender reported that with recently deteriorating economic conditions, women in local microfinance groups had borrowed from him to repay their group loans – at 40% per month – because they wanted to avoid the shame of the group members coming to take their assets. He took consumer durables as collateral and described how the women would send someone else with the asset and visit him separately afterwards to get the money.

It appeared that men also sought to avoid putting women in a situation where they might experience shame through not being able to pay. Both wives and husbands explained that husbands had refused when they asked to join a *gitati*. These were cases where the wife had asked to join a ROSCA but where the husband would have to give her the contributions as she had no independent income of her own. If the husband felt that he could not reliably provide the contributions he felt it was better for the wife not to join, as he did not want her to be embarrassed in the group by his failure to bring money for her. Where women had their own incomes or were given housekeeping money, then it was usually up to them how they managed it. If they wished to make contributions to groups from this, they were usually free to do so.[70]

The need to avoid bringing shame on women also extended to a male rural moneylender who explained that he could lend to women in town but not in rural areas. In town women had their own incomes and because of this were "like men" (UIU,114). By contrast if he lent to a woman in the village and she could not repay he would bring shame on her. If her husband had not been aware of the loan then it was possible to bring conflict to the home and he feared being blamed for causing the problem as it would then reflect badly on him. In the rural areas it was mainly the husband's income that would be used to repay. The moneylender's policy was therefore only to lend to women in the village if a man she trusted came with her – this could be a male friend or relative. This would enable him to give the man the money and the man would then give it to the woman.

By contrast, these social norms and sanctions did not appear to have the same effect for men. Male informants reported many cases of mens' groups that had failed. In a number

[70] An exception to this arose in Chehe where less well off young men did not like their wives belonging to groups. This seemed to be due to a sense of insecurity in their marriage. Some wives explained that their husbands do not like them to bring things for the house because they felt the women would boast about it and undermine their status as head of the household.

of cases fights had occurred over group breakdown and some young male informants could show the resulting scars. Some of these cases involved con men claiming to start groups and canvassing the young men in town to make contributions. These groups never met and by the time it came to their turn they would not get the money. They knew that even if they took the case to the police they were unlikely to get their money back and taking the case to court was too expensive.

Men themselves explained this as the result of a more individualistic culture among them. In Chapter Five the traditional system of age-sets was described as a means through which men collaborated across lineages. But Lonsdale suggests that male solidarity was not strong, especially after they married, quoting the Kikuyu saying: "helpful age-mates become rival householders" (1992:327). To the extent that there is male collaboration this has been based in the *mbari* (FGD4). Moreover, since age-sets no longer exist, the socialisation process for men has not involved group membership and it has certainly not been adapted to current circumstances in the way that Robertson describes for women. Moreover, the empirical material in Chapter Nine (p234) indicated the contempt with which men viewed women's group activities. Hence it can often be the case that a young man only learns about groups from his wife once he has got married (AIG,17).

Both men and women explained that men have a "don't care" attitude. Men reported that they did not like the strictness of the rules involved in groups and the fines they would incur if they didn't attend. Other men also explained that men could not mix with each other since they do not want to be seen as needing to depend on others and so being seen as inferior. They did not like to consult each other when they had problems but preferred to keep their problems to themselves:

> *"men are proud and do not trust each other ....every man is clever....you know someone is going to mess you up" (i.e. if you get into a group with them) (FGD6).*

Often the rules of the group were not written down and men realised that nothing could really be done if they did not pay, so they did not fear default. If a woman was not able to complete her payments in the group then the group could go and repossess the items but a man would resist this. Women explained that this was why they could not have men in their groups:

"men don't like struggling.....he won't struggle to get money for the meeting, he will just say he has nothing in his pocket and what will you do to make him pay? You go to his place to start selling things and he will just say no. Whereas a women, if she doesn't have money, will borrow from a friend - even get it from her husband - but men don't like coming to meetings and complying with rules" (REM, ARG,121).

These women further reflected that men did not feel shame in the way that women did, with a local saying: "*thoni cia arume ciri igoti*" which in translation means "the shame of men is at the back of the head". She used this to mean "a man does not care about anything if he believes he is unable to pay at that time" (REM, 121). It refers to the fact that when a woman feels shame it is evident in her expression, and she is unable to look someone in the eye, but a man will not feel such shame and will hold his head up high, in this case, when telling others that he has no money to bring to the group.

This difference between men and women is underlined by an informant whose wife had been a member of a local MFO group and taken a loan for a piggery project at home for which he had been providing the weekly repayments. He explained that he did not want her to take another loan because he did not feel that she would be able to make a business work in the current economic climate and did not want her to be shamed by him being unable to provide her with repayments. He said that he would rather take the loan himself because he would "know what to do" (LOR,94) if he could not find the payments, and that the worst that could happen to him was six months in civil jail.

This is not to say that men did not join groups - whether men's or women's - or that they did not also value groups. In fact a number of young men demonstrated their eagerness to join a 'good' group – which usually meant a reliable women's group - and lamented their inability to gain access to such groups. Some young men reported "being carried" by women in groups. This was where a young man, who had a good relationship with a woman who trusted him, joined a group through her. He would then give her the contributions but only her name appeared on the register. This is one of the few ways a young man could join reliable groups when he was not yet married and could not therefore do this through his wife.

However, men also reported that circumstances have changed greatly in recent years and especially since 1997. Many men reported that they had now joined self-help groups due to the hard times they were facing as the economic downturn had "brought the men to being able to be humble in their homes"(FGD5). Men were finding it difficult to take loans from banks due to high interest rates. Minimum balance requirements for savings accounts had also been raised, making it more difficult to save and earn interest there (FGD6). They said that in the past groups were just for women, but they had come to see what women have been able to achieve in the home as a result of being in the groups. They now needed to be able to save little by little and this was one of the few ways in which they could acquire small assets. As a result they reported that they had learnt how to behave in groups. Further, given that they were having financial problems they found that they could share these in the group without having to go around telling all of their friends about their problems and asking for money.

Men said that they preferred to start their own groups because they saw women's groups as dealing with small things i.e. household items such as utensils, where as men they need to save for purposes such as school fees and investments. One men's group said that they had started as men only (in the rural area) but wives came on behalf of their husbands - usually because the husband was not reliable - and so it became hard to exclude them (FGD4). They complained that when women come in they "change the minds of the men to make them think of small things" but that they did not want to change their minds, as they want to do "big things". As was seen in the last section, men have expenditure responsibilities that involve bulky payments for school fees, asset accumulation and so on. Thus for men, if groups are to be a means of financing these responsibilities, they need to be in groups where the payments are higher to be able to achieve this in a period of time they regard as acceptable.

10.2.4 ROSCA participation: conclusion

This part of the analysis has explored the reasons for women's greater use of ROSCAs through the use of anthropological material on gendered social relations and respondents own explanations.

This evidence suggests that, first, women were traditionally socialised in groups prior to clitoridectomy as part of the age-set system and that women's labour groups were also a feature of women's collaborative activity. These groups also contained internal disciplinary mechanisms. The colonial government also promoted women's groups as a means of gaining loyalty and promoting women's domestic roles. But after independence these became the basis of collaborative economic activity in a range of areas, and the need to save for these projects was often at the centre. By contrast, while men were similarly socialised in age-sets, these provided little basis for solidarity after men had married. Moreover, with the decline of age-sets, there has been little social basis for cross-lineage collaborative activity.

Second, respondents referred to gendered norms of behaviour in explaining the capacity of women to operate more effectively in groups than men. These contrasted the individualistic and opportunistic behaviour of men with the shame that women would experience if they failed to repay. While, both women and their husbands explained how they would seek to avoid this shame, preferring not to enter groups where they could not be confident of making contributions, this gendered difference may reflect the greater dependence of women on female kin, neighbours and related social networks in coping with livelihood shocks, for example.[71] This suggests that, in the context of ROSCAs, shame is used as a sanction to enforce rules in women's groups but that it does not operate so effectively for men. By contrast, men do not appear to have access to a similar sanction that can enable their ROSCAs to work.[72]

The implication of this is that the ways in which women are socialised in groups, and the systems of discipline that they practice, have enabled them to more effectively use informal group-based financial systems than men.

10.3 Conclusions

This chapter has sought to explain women's greater use of ROSCAs as a financial intermediation mechanism through the development of two lines of analysis.

[71] An example of the way in which women reciprocate and support each other with food and other transfers is described in Francis (2000).

[72] A reflection on the need for strong sanctions to be available and enforceable in men's groups was the reported case of a group that had been formed among men from the Meru community living in Karatina. The collector was a policeman and it was reported that everyone paid because they feared him. When the policeman was transferred out of the area the group collapsed.

An analysis of gendered intra-household economic relations was developed to establish the gendered demand for financial services. Patterns in the division of labour and control over income showed that women were allocated some of the income from these activities – not necessarily commensurate with their labour input – and sometimes given control of the income stream in its entirety. However, it also showed that men tended to control income streams that yielded the highest incomes. However, the allocation of income streams can be seen as associated with responsibilities for particular household expenditures. Men often believe and expect to provide for the household and this includes primary responsibility for larger and lumpier expenditures such as for assets, school fees, farm inputs and health. The smaller and more regular flows received by women were usually used to buy food and for non-food household expenditure - where they are seen as "supplementing" their husband's contributions.

The different characteristics of these income flows and expenditure responsibilities alongside the relative independence of their management, result in different demands for financial services. Women's small but frequent income streams result in their use of ROSCAs that can accommodate small and regular payments. ROSCAs enable these amounts to be converted into small lump sums that allow them to cater to their personal expenditure needs for larger amounts such as clothes or household assets for which they also have responsibility. Men on the other hand require savings services which enable them to accumulate income streams which may be infrequent, such as cash crop payments, into sums for other lumpy and less frequent expenditure on assets, farm inputs, health care and so on. Alternatively, they seek loans that enable them to meet these needs.

The second line of the analysis emphasised the gendered nature of social sanctions and the role they play in enforcement in ROSCAs. The anthropological literature demonstrates the role that co-operative activity has played in women's socialisation in the past and this was different for men. This helps to explain the differing views that men and women had about their ability to conform to ROSCA rules and the efficacy of the sanctions available when these are broken. The argument here is not that men do not experience shame at all, but that in the context of ROSCA activity this social sanction does not ensure men's compliance to the rules of the group as effectively as it does for women.

This supports the argument presented in Chapter Three that social relations operate in ways that effect the implementation of rules and enforcement mechanisms in financial intermediaries. In the case of ROSCAs it appears that the sanction of shame performs a role in enforcement that makes ROSCAs a more viable form of financial intermediation for women.

These two lines of analysis are also related. The nature of the income streams which men control can be large and irregular. This means that they are less likely to have access to the regular contributions which ROSCAs demand. Moreover, their expenditure responsibilities are also lumpy, and in many cases are tied to particular times of year. For example, farm input requirements are governed by seasonality and school fees by school terms. The ability of ROSCAs to cater to these needs is limited since they offer members the payout in rotation and not all can take the funds at the same time. For women on the other hand, the purchase of clothes or household utensils and assets with these funds can take place at any time of year.

The scale of men's expenditure requirements is another factor. In order to gain adequate lump sums from ROSCAs, men would need to contribute higher amounts. Given the apparent weakness of informal social sanctions in men's ROSCAs and the larger amounts they would need to save in them to make them useful, this makes ROSCAs a much more risky place for them to save compared to formal financial institutions. Alternatively, more effective enforcement mechanisms would need to be found as is to some extent the case in formal mutuals such as SACCOs.

Finally, this discussion also helps explain the finding of Chapter Seven that being young educated and male raised the likelihood of borrowing from friends and relatives. Since men do not have social relationships that enable them to join groups to meet their financial needs they are more likely to turn to friends and they explained that this was how they were most likely to borrow. The young educated men that this finding referred to were unmarried, living in Karatina and running their own businesses. This meant that they needed funds, had no collateral and had not yet had the opportunity to learn about groups or the behaviour required to manage to borrow from them.

In conclusion, two analytical approaches have been used to show how gender relations influence both men's and women's engagement with financial intermediation. The first demonstrated how intra-household gender relations influenced the demand for financial services. The second showed how aspects of gender relations beyond the household affect the ability of women to join groups and respond to an enforcement mechanism.

Chapter 11 Conclusion

This study set out to analyse financial markets in Mathira using approaches that view markets as exchange processes that are regulated and structured by social institutions. Its purpose was to develop an holistic and systematic analysis that described market structure and analysed social embeddedness. Within the terminology of orthodox economics, it has sought to examine the extent and nature of fragmentation and to explain its origins.

The approach taken suggests that two sources of fragmentation can be theorised. First, there is fragmentation that arises from the nature of financial intermediaries as forms of collective action. Second, there is fragmentation that results from the ways in which social relations influence who can engage with these intermediaries due to the rules and enforcement mechanisms they involve. The field research has demonstrated the existence of both of these sources of fragmentation in Mathira.

This conclusion starts by reviewing this approach and the findings of the detailed investigation of Mathira's financial markets. It then discusses the implications of the study for both real market and NIE approaches. Since the research methodology was innovative, it then reflects briefly on how further research on real financial markets might best be conducted. Finally, the implications of the study for financial sector policy generally and in Kenya are considered.

11.1 Financial intermediation reconsidered

The study started by taking a step back from the conventional focus on the supply and demand for savings and loans to consider the nature of organisations that are able to carry out financial intermediation. The purpose of financial intermediation is to take funds from those who wish to save and on-lend to those with a demand for credit. For neo-classical theory the 'pure' market situation would involve agents seeking out individuals with excess funds from whom they can borrow – money lenders or friends and relatives – together these have been termed 'direct' lending. But business is also transacted by three types of financial intermediary, each of which constitutes a different form of collective action: banks arise from the private firm (private ownership); SACCOs, ROSCAs and ASCAs from the co-operative form (collective ownership); parastatals are formed by the state (collective ownership via the state). Microfinance organisations originating in NGOs are privately owned and can either remain owned by NGOs or are likely to become regulated deposit takers under special legislation. Each type of intermediary has a different set of rules, monitoring and enforcement mechanisms linked to the underlying form of collective action.

This approach to identifying the rules, monitoring and enforcement mechanisms of financial intermediaries allows the further development of an institutional analysis. The first point is that the owners set the rules and decide how the monitoring and enforcement mechanisms are to be implemented. This allows the power and interests of the owners to be discussed in terms of the way these rules are set and enforced. The regulatory and supervisory structure laid out by the state also regulates the exercise of this power. It is for banks that this is most obvious through liquidity and reserve requirements, audit procedures, deposit protection and so on. But state regulation usually deals with financial intermediation by co-operatives and parastatals differently - primarily because the relationship between owners and users in banks presents enforcement problems for depositors. It has also been pointed out that SACCOs, ASCAs and ROSCAs are all mutuals, with the key difference between them being the formal regulation of SACCOs compared to ASCAs and ROSCAs.

The rules and enforcement mechanisms used by financial intermediaries also depend both on formal laws such as property rights, inheritance and employment law, and on informal norms and sanctions. Indeed social order could not be maintained without this complex infrastructure of informal norms, involving trust and morality. Further, many aspects of these informal norms are in turn embedded in social relations such as those of age, gender, ethnicity, religion and class. The structure of these social relations influences the ways in which agents engage with rules and sanctions.

This approach, which prioritises an analysis of financial intermediaries in terms of their rules and enforcement mechanisms, has a number of implications. First, it allows key characteristics of financial services - both savings and loans - to be understood as resulting from the form of the financial intermediary. Hence, the need for banks to take collateral results from the fact that banks are lending other people's savings and need to protect the interests of both savers and their own capital base. By contrast in mutuals, savers are also borrowers and hence their own savings, and the savings of their fellow members, may be used as collateral for a loan. Further, the ways in which prices are set also differ fundamentally between banks and mutuals. It is the board and management of banks who set prices, whereas in mutuals the constitution is likely to require a general meeting of the membership i.e. the users, in order to decide on prices.

Thus the characteristics of the financial services that an intermediary can offer are determined by organisational form. Only one of these characteristics is price, and economists often refer to other characteristics as "non-price factors". But a vital point here is that the organisational form affects the decision-making processes through which prices are set and the influences on price formation can be entirely different. While in banks, management sets prices independently of savers and borrowers; in mutuals prices are set by members who are both savers and borrowers. Moreover, in mutuals borrowing entitlements are usually related to saving. These limit the comparability of interest rates between providers and hence the relevance of conventional neo-classical price analysis. .

Second, this approach offers an alternative means to understand market fragmentation. The analysis of financial markets based in new institutional economics has moved beyond neo-classical economics by proposing that price differences in the financial market can be explained by the information and transactions costs associated with different forms of provision and that it is therefore necessary to analyse risk-adjusted returns to find evidence of fragmentation. But it does not recognise that the fundamental differences in the ways intermediaries deal with these costs cannot be reduced to an analysis of the costs of funds, screening, default and profit.

For example, mutuals have a screening system based on membership and one that at the same time provides collateral. This is a very different situation to that of banks, which must screen their borrowers using a range of techniques such as interviews and business plans, and find legally enforceable ways of taking collateral. Moreover, analysts who have tested the NIE empirically have recognised the role of social relationships in conveying information and reducing transactions costs but have been unable to demonstrate how these can be incorporated into the analysis. To sum up, market fragmentation arises not just from the existence of significant transactions costs, nor solely from product differentiation, but from fundamental organisational differentiation.

A further step has to be made: the effectiveness of a particular type of intermediary is determined by the actual ways in which the rules, monitoring and enforcement mechanisms operate. This depends on how they interact with politics, culture and social relations in practice. Focussing on the rules, monitoring and enforcement mechanisms therefore suggests a means through which the embeddedness of financial institutions in these relations can be analysed. Moreover, if the operation of rules, monitoring and enforcement mechanisms are dependent on norms and sanctions arising from social relations, this suggests that the use of services will differ according to socio-economic groups. Social relations are therefore a further potential source of fragmentation.

This conceptual framework therefore theorizes fragmentation in financial markets as arising from two sources. First, from the organisational form of financial intermediaries and second from the ways in which social relations influence their rules and enforcement. With this understanding in mind, the study set out to investigate the financial intermediation in Mathira.

11.2 Real financial markets in Mathira

The collection and analysis of data in Mathira took an holistic and systematic approach to both the supply and demand sides and the role of both formal and informal services. The purpose was to first describe this financial landscape and second, explain its contours through an investigation of the influence of social relations, politics and culture. The analysis has also served to examine the usefulness of the conceptual framework developed.

The survey of formal financial service providers in Mathira showed that the banks and formal privately owned intermediaries dominated in terms of the value of mobilised deposits (80%) and outstanding loans (64%), and 49% of the number of savings accounts. However, the mutual sector was an important part of the landscape, accounting for 21% of the value of deposits, 28% of outstanding loans by value and with 49% of the number of accounts. This also reflects the fact that mutual providers tend to deal with smaller deposits and loans than the banks. Moreover, when considering the extent to which intermediaries on-lend their deposits locally, it was seen that the banking sector performed poorly by comparison to managed ASCRAs and SACCOs. MFOs lent donor funds and deposits that they mobilised became a source of funds for the banking sector. They did not represent a significant proportion of the value of outstanding loans (4%).

The demand side analysis was able to explore the role of informal group-based mechanisms that were not captured by the supply-side survey. This demonstrated that group-based savings systems were used by a wide variety of people. ROSCAs were used by 48.5% of the sample and group-based savings mechanisms as a whole by 52.8%. Once formal SACCO provision was taken into account, some 70.6% of the sample was found to be using mutually based services. Hence, the evidence from both the supply and demand side survey indicates that mutually based mechanisms are an important form of intermediation.

On the borrowing side, few had borrowed from formal banks or parastatals. Indeed the loans from banks were all unsecured and smaller than loans available from employee SACCOs, MFOs and even from independent ASCAs. By contrast the importance of borrowing from cash crop SACCOs was clear (19.1%), although these loans were relatively small. When comparison is made of the extent to which savers access loans from the same type of intermediary, it is clear that banks performed least well compared to mutuals, apart from mainstream MFOs where savings are compulsory. ROSCAs were not included as borrowing mechanisms though in many ways they are. Had they been included these would have been the single most important source of loans also. Employers, friends and relatives were also an important source of loans.

Overall, ROSCAs were the most used arrangement and it was found that women made significantly more use of them than men. Not only were they more likely to be members, but they also joined significantly more groups than men did and saved significantly more in them –especially married women.

These findings suggested the need to further investigate the following: (i) the role of mutuals in the market; (ii) the causes of the lack of secured lending by banks; and (iii) the causes of gendered ROSCA use in order to explore further to what extent these findings were evidence of fragmentation in the market and if so, what their origins were. In each case the research sought to relate the stylised fact to social embeddedness and market fragmentation.

11.2.1 Land

The form of banks as intermediaries makes it necessary to take collateral, and land has always been seen as one of the most useful assets for secured lending. Moreover, using land as collateral has been one aspect of the rationale for land registration and titling programmes in Kenya and elsewhere.

Land in Kenya has been fundamental to politics since the arrival of the British, and titling and registration under the Swynnerton Plan were in part premised on the need to increase the efficiency of the agricultural sector through access to credit. Yet it had the contradictory objective of ensuring land security for the Kikuyu in the face of European expansion. It was unlikely that those to whom land rights were so important would then risk them as collateral for loans.

The research has shown the continuing role of land in Kikuyu society and culture. Land is of primary importance to social structure especially that of the *mbari* with a patrilineal inheritance structure. The first round household survey found that a minority of households, some 39%, had holdings registered in the name of the household head. For a further 42%, access was via another family member or relative, most often the father. Women owned land in just under half the instances where they cultivated land. But the process of titling failed to deal adequately with customary land rights, and these claims were not expunged. In fact the Land Control Boards, which were set up to enable economic development through dispossession of less successful farmers as they defaulted, have instead upheld customary rights. Land is a vital social safety net and such considerations have become key to Board decisions. Moreover, the existence of these customary rights has enabled both men and women, as wives, brothers, sons and daughters to prevent the mortgage or disposal of land in which they have an interest.

Cultural constraints to its use as collateral included the role that burial on family land plays in confirming identity with the *mbari,* and the way curses can be placed on land transactions involving money. Hence, the complexity of land-based social relations and the cultural importance of land helps to explain the failure of borrowers to use it as collateral. Furthermore, these constraints do not only operate from the demand side. Banks have experienced difficulties in disposing of land as families have resisted forced sales. Moreover, in the 1990s land has continued to be at the core of politics. Land grabbing, the issuing of false title deeds and ethnic clashes in the Rift Valley and the coast have affected its usefulness as collateral.

11.2.2 The role of mutuals

The explanation of limited borrowing from banks has concentrated on the difficulties involved in using land as collateral. Yet explanations for choosing mutuals also invoked other reasons for not using banks. While the transactions costs associated with saving in the banks had been rising, transactions costs clearly do not adequately explain the ongoing growth in the SACCO sector and an apparent burgeoning of group-based finance in the late 1990s. The explanations for this are more diverse. The reasons encompass the need to create discipline in saving, and protect that saving by being unable to access it – illiquidity preference. The fact that access to loans in a mutual is a matter of right is also important. Moreover, as user-owned organisations members have voice: they set the interest rate and can negotiate terms and conditions of payment once difficulties strike. Groups and SACCOs also allow members to expand their social networks and this enables them to gain both financial and social support at times of crisis.

These preferences fit well with Berry's (1993) view of African agrarian social relations. The elements of her analysis that have been highlighted suggest that there are contradictory pressures between exclusive claims to resources and the need to develop sufficient authority to make such claims by mobilising support through inclusionary strategies. These strategies use social networks to expand the support base. Moreover, these are multidimensional, have multiple meanings and allow scope for negotiation.[73] Hence strategies for developing access to resources are concerned with extending social networks and expanding the range of options available rather than short-term calculations of material benefit.

[73] Indeed the bad debts in the banking sector have resulted from the ways in which elites and politicians have negotiated access to the banking sector both as owners and borrowers.

The political economy of these social relations also contributes to understanding the importance of cash crop SACCOs. Marketing co-operatives have historically been deeply entrenched in politics and used as a means of mobilising political support because they have a direct role in representing the interests of members. In Mathira, the motivation for SACCO formation in the cash crop sector has also partly been political. The history of Kikuyu social relations reviewed in Chapter Five suggested that legitimacy in public office was built on private wealth and ambition but should also deliver a public benefit. This also conforms to Berry's analysis of the pressures for inclusion. SACCOs are a prime example of the means through which these dual objectives converge and can be achieved: SACCOs create a resource for a group of people while also offering opportunities for private wealth accumulation through the patronage opportunities that are both received and in the power of leaders to offer. However, a much more in-depth analysis is necessary to understand exactly to what extent and how processes of unequal redistribution might operate and whether there is evidence of 'adverse incorporation'.

It is also important to set these developments within the broader context of Kenya's political economy in the 1990s. Two aspects need to be emphasised. The first is that a number of banks owned by Kikuyus had failed in the mid-1980s, many because of their political connections (see Chapter Five). This was described by one commentator as part of Moi's "economic war against the Kikuyu" [74](Ogachi, 1999:97). Second, banking sector interest rates have been influenced by domestic monetary policy through Treasury Bill sales. Moreover, banks such as Barclays and Standard have had to operate in line with their parent companies' objectives and meet international profitability targets. In the context of these national political and economic struggles, mutuals are an organisational form through which agents may isolate themselves from these wider influences to protect their resource base.

These reasons clearly demonstrate why it is important to look at the form of the intermediary and its rules, monitoring and enforcement mechanisms. Mutuals offer voice because the members own the organisation. The right of access to loans is embedded in this form. The data demonstrates that savers in SACCOs and ASCAs were able to borrow the funds they had deposited, in contrast to banks where it was a minority which borrowed. Of course, there is the potential for patronage and favouritism in the process of loan

[74] Liberalisation in the coffee and dairy industries are locally interpreted as having been driven by intentions to undermine the Kikuyu economy.

allocation – but this too is part of the reason for their popularity: norms are understood and negotiation is possible for all members.

In allowing for voice, mutuals also reduce the risks of borrowing by comparison with banks. This has been especially important during a period of economic downturn when downside risks are enhanced and where political liberalisation has increased aspects of both economic and political uncertainty. Members of mutuals are able to negotiate with their fellow members. The research has demonstrated the multiple ways in which financial and social support in the event of crises can be gained using the social networks that members develop both inside the group and outside of it.

11.2.3 The gender embeddedness of financial markets

The finding from the demand side survey that women were more likely to use ROSCAs than men suggested the need to investigate the role of gender relations in access and use of financial services. The way in which patrilineal inheritance systems affect women's land ownership was discussed in Chapter Eight. It can be argued that this is also a reason for their limited use of formal sector financial services but it was argued that women's ability to use land as collateral was constrained in similar ways for both men and women. The explanation of women's ROSCA use was developed through two lines of analysis. First, gendered economic relations within the household were analysed and their implications for the demand for financial intermediation by men and women were examined. Second, the comparative effectiveness of shame as a sanction for enforcement in informal groups of men and women was explored.

The analysis of gendered economic relations within the household suggested that patterns in the division of labour and control over income meant that women were allocated some of the income from these activities or given control of this income stream in its entirety. However, men tended to ensure that they controlled income streams that yielded the highest incomes. The allocation of income streams can also be seen as associated with responsibilities for particular household expenditures. While men face a social norm in which they are expected to provide for the household, this includes primary responsibility for larger and lumpier expenditures such as on assets, school fees, farm inputs and health. Women's contributions from their income streams are usually related to food and non-food household expenditure - where they are seen as "supplementing" their husband's contributions.

The differing characteristics of these income and expenditure flows, alongside the relative independence of their management, results in gendered patterns of demand for financial services. Women's small but frequent income streams result in their use of ROSCAs that can accommodate small and regular payments. ROSCAs enable these amounts to be converted into small lump sums that allow them to cater to larger personal expenditures such as clothes or household assets, for which they also have responsibility. Men on the other hand require savings services which enable them to accumulate income streams which may be infrequent, such as cash crop payments, into sums for other lumpy and less frequent expenditure on assets, farm inputs, health care and so on. Alternatively they seek loans that enable them to meet these needs.

The second strand of the analysis emphasises the gendered nature of social sanctions and the role they play in enforcement in ROSCAs. The anthropological literature demonstrates the strong role that co-operative activity has played in women's socialisation in the past, and the way it has been adapted both by government and women themselves in the colonial and independence periods. While age-sets did provide a basis for cross-lineage collaboration among men, they did not provide a strong basis of solidarity among men once they had married. Moreover, the age-set system no longer exists. This helps to explain the differing attitudes of men and women to group-based activity.

It was further argued that one of the reasons for women's more extensive use of ROSCAs was the effectiveness of shame as a sanction. Informants' own accounts suggested that women would seek to avoid the shame of not being able to pay and that men would also seek to protect women from this. The argument here is not that men do not experience shame at all, but that in the context of ROSCA activity this social sanction does not ensure their compliance to the rules of the group as effectively as it does for women. However, the evidence also suggests that men were beginning to recognise the usefulness of ROSCAs as a form of financial intermediation that could meet their needs for lump sums. They themselves reported that it was necessary for them to learn how to adapt their behaviour in order to make ROSCAs effective. It could be argued that this is consistent with a view of the evolution of economic institutions in response to changing transactions costs, i.e. that men have changed their behaviour in response to the increasing difficulties of borrowing from formal sector banks and the changing nature of their income streams.

However it must be borne in mind that the cause of the need for these changes were the political economy of macro-economic management, banking sector performance and cash crop SACCO re-structuring. This is an example of Khan's criticism of the NIE (p34) that the ranking of institutions is not independent of the polity.

An additional point here is to highlight the gendered division between ROSCAs and SACCOs. Cash crop and business SACCOs tend to be male dominated as men have controlled cash crops and business opportunities. This further underlines the apparent need for more formal types of sanctions related to their larger borrowing requirements.

These two lines of analysis together demonstrate that gender relations influence access to financial services. The first aspect of the analysis demonstrated the influence of gendered intra-household relations on the demand for services to bridge the gap between income and expenditure. The second, showed how ROSCA use had been influenced by the extent to which women socialised in groups and had learnt the skills to do this, and the effectiveness of shame as a mechanism in enforcement.

11.3 Implications for theory

11.3.1 Implications for institutional economics and for the study of real financial markets

This study has taken the 'old' institutionalist view that markets are exchange processes regulated and structured by social institutions and sought to develop and apply it to financial markets. While many studies, especially of informal finance, have shown how these mechanisms are socially embedded, this study sought to take an holistic and systematic approach to enabling the nature and origins of this embeddedness to be theorised.

In order to develop the approach, the initial focus was the organisational form of financial intermediaries. This allowed for analysis of their rules and enforcement mechanisms and of the relationship between these and social relations. This approach has in some ways bridged aspects of the NIE analysis of organisational forms – mainly the firm - with the emphasis of real market analysts on the role of power and social relations. It allows for a clear theorisation of the ways in which social relations and power influence access to and use of financial intermediaries, and provides a basis for understanding how socio-economic groups are differentially located in markets.

Moreover, the inter-disciplinarity of 'old' institutionalism allows the multi-dimensional nature of social relations to be recognised and explicitly brought into the analysis. Hence transactions can have dimensions of social and cultural meaning and conformity with norms of behaviour as well as economic intent. This study shows the need for this step and conversely demonstrates the limitations of optimising rationality as a behavioural assumption.

In order to explore the extent to which this analysis has systematised and operationalised a more realistic framework for examining the reality of financial markets, we can return to White's (1993) four-fold framework for the political analysis of markets, which - as was suggested in Chapter Two- offered a bridge between institutionalist and political economy approaches. The four aspects were: state involvement, market organisation, market structure and social embeddedness. The last aspect required that market analysis examined the means through which social organisation affected market operations, which, as already discussed, the approach developed here is primarily geared to achieving.

In terms of state involvement, this approach allows both the direct role of the state as an actor in the market to be recognised – either as state-owned banks or parastatals – as well as the regulations that it imposes on financial intermediaries. The framework allows wider political influences on the way rules are made and enforced to be a focus of analysis, but it has not theorised more generally how these relate to each other. However, White also highlighted the pervasive and saturating influence of a myriad of other rules and regulations. This analysis has made reference to the framework of property rights and formal laws that are also necessary for financial intermediation and showed how these also need to be examined in terms of their influence – especially for land.

Second, White highlighted the means by which participants in the market could collaborate and operate to their own advantage. One such example in this study has been the way in which agents may collaborate to form mutuals, thereby isolating themselves from wider influences and gaining power to create their own internal market for funds. Indeed this analysis has also revealed how participation in the market is linked to the extent of voice and hence negotiation in market regulation. The analytical framework developed here can draw attention to forms of market organisation among providers through examination of rule setting and implementation. For example, an empirical question that arises from this study and that is worthy of further analysis is that of the dynamics among the large commercial banks as evidenced by their behaviour over minimum balances and interest rates. The evidence seems to suggest that banks followed market leaders rather than demonstrating 'perfectly' competitive behaviour, but it was not possible to explore this further. This suggests the need for analysis of the ways in which norms of behaviour among similar providers tend to operate.

Third, the politics of market structure refers to the unequal power relations involved in exchange and the inter-linking and inter-locking of contracts between credit and other markets. This study found little evidence of these types of relationship in Mathira's financial markets, but the framework does allow for their analysis through the description of the deposit and loan services available from different forms of intermediary including from moneylenders. An analysis of the rules of moneylenders and the ways in which they enforce contracts would enable these aspects to be described and the analysis of who uses them and the social norms and sanctions that surround this engagement to be made. Analysis that suggests adverse incorporation into credit relations is compatible with this approach.

However, while there was little evidence of direct inter-linking of factor markets such as labour and inputs in credit relations in Mathira (except for two cases of borrowing from employers where interest was not charged), the role of land to formal financial intermediation is however critical. The relationship between credit and land is core to the design of financial intermediaries that require collateral and is therefore likely to appear as a feature in the analysis of any real financial market. By focusing on enforcement the framework deals with this explicitly. Land acts as an intermediary variable through which social relations influence financial markets and must be analysed.

This analysis does therefore appear to satisfy the main requirements of a 'real' markets approach and also to advance the conceptual framework for operationalising their empirical analysis. It is able to incorporate the variety of available mechanisms for financial intermediation, ranging from banks through to direct lending and reciprocity. Although financial intermediation is specific in dealing with the problems surrounding the time-based nature of financial claims, the variety of organisational forms - private firms, co-operatives, state-owned enterprises, 'informal' entities – are evident in a range of markets. This approach to analysing the influence of social relations on access may therefore be applicable in other markets.

This study has also built upon the work of Pujo (1996) in analysing how gender relations systematically influence the use of financial services. It has undertaken a similar analysis of gendered economic relations based in the intra-household division of labour, distribution of income, control over income and responsibility for expenditure and examined their implications for the gendered need for financial intermediation. This analysis was not able to go into as much depth as would a study which was aimed only at examining gendered embeddedness; nevertheless it has demonstrated that this approach can be used in other markets to explain the positioning of men and women and suggests that similar approaches should be used in the development of analyses of other real markets. However, qualitative investigation found that gendered social norms were also important in explaining this use and demonstrates the need to go beyond the household alone in undertaking a gendered analysis. A systematic approach to gender relations beyond the household that is applicable to any market will require further research.

11.3.2 Implications for New Institutional Economics and the study of financial markets

The approach taken in this study to reconsider the types of organisations that undertake financial intermediation and examine their rules and enforcement mechanisms uses North's insights, and is consistent with the types of questions that Coase and Williamson were asking about the reasons why firms and other non-market organisations exist. Yet it is at the same time critical of a narrow focus on information and transactions costs – especially in lending – that has obscured the organisational origins of financial intermediation.

The analysis of financial intermediation in Chapter Three has shown how the incidence of transactions costs of lending differs according to the organisational form of the financial intermediary. The information and transactions costs analysis has done much to demonstrate both the importance of the informal financial sector to rural finance, and to identify the complexity of contracts that this finance embodies. Yet the organisational context affects the type and range of products that a financial intermediary offers both in terms of both their price and 'non-price' features. It is these differences that affect the way in which information embedded in social relationships is brought into – or excluded from – financial transactions. It follows that attempts at the valuation of transactions costs at a particular point in the intermediation process cannot capture and adequately reflect these differences. Empirical analysis demonstrating that risk-adjusted returns do not equilibrate therefore produces a trivial result. Rather, exposing the underlying forms of intermediation shows that processes of price formation and even the meaning of profit are inherent to these organisational forms. Consequently, fragmentation can be seen as endemic and resulting in several markets rather than a single homogeneous financial market.

Conclusions that markets are fragmented lead neo-classical economists to focus on barriers to entry, with a view to enabling competition to erode excess profits. However, this research demonstrates the complexity of 'real' barriers to entry on both the supply and demand sides. On the supply side, barriers to entry differ as a result of the type of intermediary and this in turn affects how they are inserted into wider economic dynamics. Regulatory requirements for banks involve minimum capital levels which can be varied depending on government objectives for the sector. The experience of the 'political' banks in Kenya shows how these were lowered to allow entry. In addition, political manipulations of their ability to raise deposits also precipitated exit. On the other hand, the requirement for SACCOs to have a common bond is both exclusionary and monopolistic but these are necessary for creating the basis of collective action that enables them to function. For parastatals the situation is different again: the example of the AFC in Kenya which is incorporated under its own Act shows how exit, or transformation, is dependent on the decision of the government.[75]

Differential use presents evidence on the demand side of the extent, complexity, and depth of barriers to entry, or movement between intermediaries: "who you are" matters. But the emphasis on transactions and information costs is clearly inadequate in theorising the relationship between social relations and financial intermediation because of the multi-dimensional nature of these relations.

The analysis of mutualist forms of financial intermediation also challenges the underlying assumptions entailed in both neo-classical and new institutional analysis. In mutuals, supply and demand are inter-related - indeed it could be argued that the demand for loans creates its own supply. This means that for these forms of financial intermediation even

[75] Discussion in 2001 involved its possible transformation into a Farmers Bank.

though there are separate 'prices' for the savings and credit components, the two services are not actually separable. Moreover, their user-owned basis means that members set their own price for funds in an endless number of markets and there will be no single 'market-clearing' price. Neo-classical theory is therefore unable to analyse these forms of intermediary effectively. Its tools - and those derived from it - cannot claim to possess universal applicability for financial market analysis.

In Chapter Four, the structure-conduct-performance approach to market analysis was briefly reviewed. Following Harriss-White (1999), it was argued that analysis of performance based on price was logically inconsistent because of multiple deviations from Pareto optimality in actual markets. Hence, little can be concluded from empirical studies about market efficiency. This study has demonstrated that comparisons of price are flawed because of the differing organisational form of financial intermediaries and the different product mixes that these result in. Prices in mutuals are a clear example of the limitations of studying price as an indicator of performance.

The view of the NIE propounded by North is one in which economic institutions evolve in response to changing transactions and information costs towards more efficient outcomes driven by competition over the long term. It allows actors to process incomplete information through mental models and also allows for vested interests and inertia to influence behaviour. However, the origin of institutions in this approach has been argued to be reductionist because it does not allow for the origin and persistence of institutions in wider social institutions or relations. The evidence presented here has demonstrated that a wide range of institutions including social and cultural norms and sanctions (such as those of land inheritance and burial, and the gendered incidence of shame) affect economic behaviour and can help to explain the persistence of particular sets of financial arrangements over time. Moreover, while there is competition and actors do respond to transactions costs (for example, men starting to make greater use of ROSCAs), it is apparent that these reasons are in turn set within the wider political economy and the influence this has had on both the economic and financial opportunities open to them. These clearly demonstrate the importance of going beyond a functionalist account of the influence of information and transactions costs on the development of institutions to an understanding of how both the political economy and a wider set of social institutions can be systematically incorporated into the analysis.

11.4 Methodology

Chapter Four discussed the use of SCP and commodity chain analysis in research on real markets. The essential aspects of structure and conduct were used in the fieldwork and the performance element was discussed above. The field research methodology also drew from commodity chain analysis. While the approach is not directly transferable to financial markets, it was the insight that savings and loans were inextricably linked that led to the development of the conceptual framework that concerned itself with how financial intermediation actually takes place.

However, in contrast to a commodity chain, the emphasis on the institutions involved in financial intermediation has allowed for an in-depth description and analysis of the complexity of the context in which exchange relationships are embedded. As suggested above it may be capable of adaptation to provide some of this depth of context in other markets – an aspect that commodity chain analysis is liable to miss.

The limitations of the supply and demand side surveys were discussed in Chapter Four. On the supply side, the availability of data and concerns about confidentiality are likely to be encountered in any similar study. On the demand side, the research would benefit from a larger and random sample for the detailed individual survey of financial service use. However, in order to overcome the small cell sizes this would have to be significantly larger in order to undertake detailed statistical or regression analysis. The constraint of research resources is therefore still likely to be present. Not least because the importance of the methodology of interviewing both husbands and wives has been confirmed in these findings and is a necessary component for any study of real markets.

Moreover, the approach has combined quantitative and qualitative research methods and demonstrated the importance of the detailed explanations that semi-structured and open-ended interviews have to offer. Studies of markets will continue to be "hollow" without these detailed descriptions. Trade-offs in research design that prioritise quantification are therefore likely to enable better assessment of the extent of fragmentation but may fall short of allowing its sources to be adequately explained.

11.5 Implications for financial sector policy

The methodology of this study was inductive, seeking to build from the specific to the general. More studies of this kind would enable the accumulation of evidence from a range of contexts and allow "middle-order generalisations"[76] to be made from a developing body of evidence. The analytical framework developed should allow such generalisations to be drawn out in a more systematic way as it gives a means of identifying what are more likely to be general as opposed to specific patterns. In turn, these can permit policy proposals to be informed by their likely effects. Policy implications must therefore be drawn tentatively from this study and await further confirmation or contradiction from further research.

The evidence from Mathira suggests three main concerns for policy. First, the implications of extensive market fragmentation are considered. Second, the role of the banking and mutual sectors must be reconsidered and these are discussed in turn. Finally, the role of microfinance organisations is also discussed. .

11.5.1 Market integration

The view of financial repression that has dominated neo-liberal financial sector policy focused on the role of control measures such as interest rate ceilings in undermining the efficiency of the economy because they deterred savings and resulted in sub-optimal investments. However, analysts could not agree exactly how liberalisation might affect quantities and prices since some also recognised a degree of segmentation and hence could not generalise as to what impact this would have. While formal tests of market integration and the correlation of interest rates have not been undertaken, the evidence collected does indicate that transmission mechanisms from the formal to the informal sectors are weak. The conceptual approach developed here helps to explain the persistence of differential interest rates across financial markets and why they have not converged around a "market" rate.

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[76] This term has been used by Barbara Harriss-White to refer to the accumulation of evidence regarding the way in which the economy in India is socially regulated ("India's Informal Economy – Facing the 21st Century" Seminar at the University of Bath, 26th April 2002)

The analysis also suggests that interest rates are only one feature of financial products and particularly that "non-price" features are equally, if not more, important. It has explained how these features can relate quite specifically to the needs of particular socio-economic groups. Indeed the extent of social regulation and political influence means that neo-classically based analysis fails to recognise the full character and extent of financial repression from both "above" and "below" (see Chapter Two). Policy often tends to focus on barriers to entry on the supply rather than the demand side. This may be because supply-side barriers are easier to change through policy (by changing bank regulatory requirements for example), whereas those embedded in social relations cannot so easily be re-structured.

These findings therefore suggest the need to shift emphasis from universal models of the inter-linkages between components of the financial system, to an understanding of the extent of inter-dependence in particular national contexts and how those linkages occur through financial intermediaries themselves or via the behaviour of individuals.

11.5.2 Implications for the banking sector in Kenya

The liberalisation of entry requirements into the banking sector has created a two-tier market with strong competition among international banks targeting corporate and wealthy personal customers but gradual withdrawal from rural areas and poorer clients: it is not yet clear whether the national commercial banks – themselves facing extensive difficulties - will fill this gap. Increased competition has resulted in reduced outreach rather than active competition to extend the market.

The exceptions are the Co-operative Bank with its Biashara loan scheme and the Equity Building Society, which has been re-orienting itself with donor support to serve poorer clients. Meanwhile SACCOs have also been moving into the provision of low-cost basic banking services. While the sector is dynamic at this bottom end and is responding to demand and opportunity, state regulatory resources have been stretched by bank failures and the extent of bad debt in the sector. The Central Bank also faces ongoing challenges to its independence from the government[77] which affects its ability to protect the banking

[77] The Central Bank Governor was replaced in April 2001 prior to the existing governor's actual retirement in July and despite his security of tenure under the 1997 Banking Act.

sector from the political interference evidenced here and complications from parliament such as the Donde Bill (see Chapter Six). Equity remains a building society yet its services are increasingly indistinguishable from those of banks. Deposit protection for non-members of SACCOs, who use front-office services, is also necessary and under discussion.

The problems surrounding land as collateral will continue to present challenges for banks to extend their outreach in rural areas unless innovative alternatives can be found. Lending against savings and income are the obvious options but so far new products of this type have been focused on the high net-worth personal market. These findings add further evidence to a growing view that initiatives to extend land registration are inappropriate and must pay more attention to local systems of land tenure (see, for example, Platteau, 1996).

11.5.3 SACCOs

This study has demonstrated the importance of mutuals especially in rural areas and for poorer people. Policy towards the financial sector needs to better recognise this and to consider the implications for both the SACCO sector and for policy towards informal groups. Here the role of SACCOs is discussed, while ASCAs and ROSCAs are discussed in the next section on microfinance organisations.

The history of co-operatives shows that they are a problematic sector for policy. However, some commentators have pointed out that SACCOs are often less prone to corruption and mismanagement than marketing co-operatives (Youngjohns, 1980) and this distinction has been noted in the discussion here. Policy in the Kenyan SACCO sector has changed from tight government control to an almost total lack of oversight in the 1990s. Co-operatives became unfashionable in the neo-liberal 1990s, but players such as the World Council of Credit Unions have done much to keep them on the map in microfinance sector debates. The spontaneous formation of small SACCOs provides new challenges for the support structures in this sector (such as Kenya Union of Savings and Credit Co-operatives and the Co-operative Bank) in providing assistance and training and means of auditing to ensure adequate accountability to members. Donor policy should recognise and resource this role.

11.5.4 Microfinance organisations

The evidence suggests that despite being one of the areas where a number of MFOs have operated from some time, they have remained a very small player with limited outreach (2000 members) and value of outstanding deposits and loans (2% of savings, 4% of loans). This was confirmed by the demand side survey, which indicated that only 7.6% (5 individuals) of the sample had borrowed from them. The users in the sample were concentrated in Karatina town, educated beyond primary school level and operating businesses. None of them were poor on an expenditure definition, all had more than one type of savings service and half were also using other loan sources. Moreover at the time of the study, problems of macro-economic decline had led to increasing client recruitment problems for the MFOs and deteriorating repayment performance. How can this apparently poor performance of MFOs, whose broad objective is to lend to the poor, be explained?

The analysis has shown that the organisational form of a financial intermediary affects the characteristics of the products they offer. Looked at from the point of view of organisational form, MFOs (whose loan capital has originated from donors) are similar to parastatals whose loan fund is the result of a transfer of funds from taxpayers (or donors in the past). The "owners", in the form of the NGO, appoint the management and they in turn set the rules. While groups may be used as a delivery mechanism, the role of these groups is inverted by comparison to a mutual. In MFO groups, the loan funds are external and the members are required to enforce repayment from others or risk the loss of their own savings. In a mutual, a user's own savings are lost if another member does not repay. But it is the membership that decides on how the defaulter will be pursued. Hence while the final result – the loss of savings – may be the same, the social relations of that loss are not. In a mutual individuals are negotiating with each other over repayment of their own money and we have pointed out earlier the importance of this feature of negotiability.

In contrast, the findings suggest that mutually based informal group-based mechanisms are of key importance to poor people, especially in reducing their vulnerability to entering the credit market. Donor policy in Kenya and to a large extent elsewhere in Africa has focused on the development of microfinance organisations as providers of services rather than the promotion of informal user-owned group systems.

The local NGOs found in Karatina offer an alternative model of promotion that avoids making strong assumptions about the abilities of groups in self-management. They demonstrated higher levels of coverage extending further into the rural areas with approximately 10,000 members, mobilising 3% of savings by value and making 10% of outstanding loans by value, although use in the demand side survey was about the same as for MFOs. The service these NGOs offer is the management of women's group funds (essentially ASCAs) for a fee, which covers the costs of the NGO. In a follow up study, there were found to be problems with the model that require attention,[78] however its outreach and sustainability are significant compared to the mainstream MFO sector. This suggests that donors should consider actively promoting user-owned groups as a more cost-effective and sustainable strategy.

MFOs have justified targeting women on the grounds of (a) their historic lack of access to credit resulting from their asset poverty (especially land); and (b) the scope for empowering women through income generation. However, criticisms have been made of the virtually exclusive targeting of such programmes to women in Bangladesh as instrumentally using their subordinate position. Rutherford (1995) notes their lack of mobility, and hence availability in the village when meetings are held and comments on their greater deference to authority. This makes them easier for MFO workers to manage and women can therefore be employed as credit officers and are cheaper than men. Potential negative effects have also been documented due to the fact that intra-household relations may dictate that women hand over the loan to their husband and experience conflict in having to request repayments from him (Goetz and Gupta, 1996; Rahman, 1999). While MFO programmes in Kenya are not exclusively targeted to women, credit officers also explained that groups whose members are at least half female were easier to manage. This is supported by the analysis of shame as an enforcement mechanism for women in groups discussed in Chapter Ten. This produces an inherently contradictory position for women in microfinance programmes. At one level these are means of addressing their lack of access to credit, while on the other they make instrumental use of their gendered subordination. Yaqub (1995) has argued that borrowers may eventually be "empowered to default" as a result of the skills and confidence they gain through participation in group-based microfinance programmes which may then reduce the effectiveness of peer lending groups by changing the underlying social relationships

[78] See Mule, Johnson et al., 2002 for more details. The problem involves incentive structures in the operation of the system and especially in relation to division of responsibility between the group and the NGO on debt collection.

involved. On the other hand, women in Kenya have a significant degree of autonomy in managing their own income streams in contrast to the Bangladesh case and hence the impact of loans on intra-household relations is also likely to be different. The multifaceted nature of gender relations means that strategies for empowering women through credit are therefore likely to depend on context and have diverse and sometimes contradictory outcomes.

This in turn is why MFOs find men less manageable in these programmes. The findings here have also tentatively suggested that men may also lack access to collateral. Young, educated men also find themselves in a position where they lack the social relationships that would enable them to borrow through these mechanisms. This in turn suggests that policy in microfinance needs to re-think how access for men, and young men in particular, can be improved.

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Annex 1 Poverty indicators

This annex explains the derivation of two indicators used in the analysis in Chapters Five and Seven: consumption poverty and asset scores.

A1.1 Consumption poverty

The poverty line was constructed using the method used by Copestake (Copestake, 1999). This constructed updated food and overall poverty lines using data from the Government of Kenya's Second Welfare Monitoring Study (Government of Kenya, 1998). The food poverty line is the income required per month to ensure that an adult equivalent can purchase 2250 calories per day. Children between 0 and 4 years of age count as 0.24 adult equivalents and between 5 and 14 years count as 0.65 adult equivalents. The overall poverty line makes additional allowance for non-food expenditure. This additional component is taken to be the average amount actually spent (per adult equivalent) by households whose total expenditure lay between –20% and +10% of the food poverty line.

At mid-1994 prices food and overall poverty lines in Kenyan Shillings per month per adult equivalent were estimated to have been as follows:

mid-94 prices	Urban	Rural
Food poverty line	875	703
Overall poverty line	1490	978

The difference between urban and rural reflects differences in food prices and in non-food expenditure incurred by those around the food poverty line in the two categories (higher in urban areas because of the need to purchase more items, to pay for transport to places of employment etc). At then prevailing exchange rates, the rural overall poverty line represented only 60% of the international benchmark of 'one dollar a day'. The rural poverty line is used both for the rural and town based households in this study because Karatina town is small and essentially rural.

Price indices were used to update these figures to June 2000. The index of 679.14 for prices in June 2000 compared to a June 1994 index of 469.96 giving an overall increase of 144.51 (Central Bank of Kenya, 2001). This gives new poverty lines for June 2000 of:

June 2000 prices	Urban	Rural
Food poverty line	1264	1016
Overall poverty line	2153	1413

Using household expenditure reported by individuals in the second round survey to calculate the adult expenditure equivalents and compare them with the poverty lines gave the results shown in Chapter Five, Table 5.6.

A1.2 Household asset scores

Using the household assets data I have created an asset score on the basis of the following valuations and consequent points:

Asset	Approx valuation (Kshs)	Points 1point/1000kshs
Bike	5000	5
Car	150,000	150
TV	10,000	10
Radio	2,000	2
Fridge	10,000	10
Cooker	10,000	10
Table and chairs	2,000	2
Sofa set	3,000	3

The Pearson correlation co-efficient between the asset score and the poverty expenditure (ie continuous variables) was 0.42 and significant at the 1% level. The mean asset score was 19.5 with a median of 11 points.

Annex 2 Calculating effective interest rates

This annex provides an example of the calculation used to derive comparable interest rates between loan products. A standard loan size was used (Kshs20,000) to calculate the effective declining balance interest rate and for a comparable period of 12 months. The calculation uses an internal rate of return calculation on the resulting cash flow.

Abbreviations:

Loan P= loan principal
LAF = Loan application fee
ED = equity deposit (or savings deposit)
Int p.a. = interest rate per annum – this may be flat or declining balance and this is taken into account to calculate the interest payments.

SMEP	Loan P=	20,000	Int.	22%	LAF	0.0%	ED	10%	Term	12				
Month No.		-	1	2	3	4	5	6	7	8	9	10	11	12
Loan inflow		20,000												
Loan Repay out			- 1,667	- 1,667	- 1,667	- 1,667	- 1,667	- 1,667	- 1,667	- 1,667	- 1,667	- 1,667	- 1,667	- 1,667
Loan Interest out			- 367	- 367	- 367	- 367	- 367	- 367	- 367	- 367	- 367	- 367	- 367	- 367
Registration Fee		- 200												
Loan Applic. Fee		- 300												
Loan insurance fee		- 400												
Personal Savings Min Bal		- 400												
Monthly PS acct fees														
Personal Savings Withdrawal														400
Compuls Savings/Equity Deposit		- 2,000	- 200	- 200	- 200	- 200	- 200	- 200	- 200	- 200	- 200	- 200	- 200	- 200
Equity Withdrawal														4,400
Equity/Savings Interest														88
Cashflow		16,700	- 2,233	- 2,233	- 2,233	- 2,233	- 2,233	- 2,233	- 2,233	- 2,233	- 2,233	- 2,233	- 2,233	2,655
IRR (monthly)	5.47%													
IRR (annual)	89%													

Annex 3 Analysis of Financial Service Use Using Logistic Regressions

A3.1 Explanation of models used

Logistic regressions enable dichotomous variables to be modelled using log linear techniques. This approach can enable an understanding of the effect different variables have on the probability of an event occurring. In this context, logistic regressions are used to examine the effect that different socio-economic variables have on the probability that a particular type of savings or loan service is used. The coefficients in logistic regressions are computed are the change in the odds ratio compared to a reference category within the data while holding all other factors constant. In contrast to the cross-tabulations used in Chapter Six, the logistic regressions enable the effect of a single variable to be examined while holding others constant and hence to understand which factors are driving the changing likelihood of the use of a service. Odds ratios are also multiplicative and therefore a combination of factors can be seen to substantially increase the odds of a particular service being used.

The technique can allow independent variables to be either continuous or categorical. While the data for sex, marital status, education, and main income source is clearly categorical, that for age, poverty by expenditure relative to the poverty line, asset score and landholding is continuous. In the cross-tabulations categories for expenditure poverty, asset and landholding data were constructed but it is not necessary to do this for the regressions although categorical data has been retained in most cases.

While it is the case that a theoretical view should drive the specification of the model, a problem here was that the expenditure poverty data is probably less reliable than the asset data but both behave slightly erratically. Asset data and landholding data are key variables to be included as both are indicators of poverty but also because both may provide collateral. Asset and land data, it should be noted is at the household level rather than individual level.

While logistic regressions enable the effective use of relatively small amounts of data it has not been possible to use them in all cases. Where the number of positive cases of a service being used is few and the causal factors disparate, the model is unable to yield plausible results. It has therefore been used selectively in the analysis and it was necessary to select the variables to be included with care.

A3.2 Results of logistic regressions

Table A3.1 : Logistic regression on ROSCA use

	Exp(B)
Sex:	
Men	----
Women	4.22*
Marital status:	
Married	----
Single	.81
Sep/Divorced	.002
Widowed	3.85
Age:	
<40	-----
>=40	.41
Education:	
Primary & less	----
Secondary & above	1.89
Location:	
Gatundu	----
Chehe	.87
Karatina Town	.87
Individuals main income:	
Agriculture	----
Business	.68
Employment	1.09
Casual labour	.75
None	.16
Continuous variables:	
Expenditure poverty	.88
Asset score	1.01
Landholding	1.05

+ - Significant @ 10% level ; *- significant @ 5% level ; ** - significant @ 1%

Interpretation: The value of the variable with '----' in each case is 1. The result given shows the marginal increase (>1) or reduction (<1) in the odds ratio. In this case the likelihood that a woman used a ROSCA was 4.22 times higher than the likelihood that a man would use a ROSCA and this was significant at the 5% level.

Table A3.2: Use of bank/building society savings accounts

	Model 1 Exp (B)	Model 2 Exp(B)
Sex:		
Men	----	----
Women	1.036	.629
Marital status:		
Married	----	----
Single	6.241	15.119
Sep/Divorced	2.188	1.955
Widowed	1.601	.529
Age:		
<40	----	----
>=40	1.203	2.109
Education:		
Primary & less	----	----
Secondary & above	1.366	.839
Location:		
Gatundu	----	----
Chehe	.352	.423
Karatina Town	5.651	12.372
Individuals main income:		
Agriculture	----	----
Business	2.010	1.277
Employment	7.108	19.363+
Casual labour	.121	.141
None	.002	.000
Asset score:		
0-5		----
6-10		1.389
11-20		6.598
>21		3.844
Continuous variables:		
Poverty - expenditure		
Asset score	1.770+	
Landholding	1.013	
	.781	

Table A3.3 : Logistic regression on rural SACCO use

	Exp(B)
Sex:	
Men	-----
Women	0.05*
Marital status:	
Not married	-----
Married	0.14
Age:	
<40	----
>=40	33.26***
Education:	
Primary& less	----
Secondary & above	1.25
Asset score:	
0-5	----
6-10	1.85
11-20	6.58
>21	0.00

Table A4.3 indicates the significance of age as a driving factor in increasing the odds of using a rural SACCO – if you are over 40 this increases the odds of rural SACCO use by 33 fold compared to being under 40. Whereas being a woman reduces the odds by 20 fold compared to being a man. This can be explained via patterns of cash crop control which is predominantly in the hands of men and patterns of land sub-division and inheritance which are strongly related to age.

Table A3.4: Insurance

	Any insurance Exp(B)	Regular insurance Exp(B)	Irregular insurance Exp(B)
Sex:			
Men	----	----	-----
Women	1.260	.585	1.203
Marital status:			
Married	----	----	-----
Not married	.682	1.505	.641
Age:			
<40	----	----	-----
>=40	1.541	2.330	.473
Education:			
Primary& less	----	----	-----
Secondary & above	1.289	1.070	1.232
Location:			
Rural	----	----	-----
Karatina Town	.569	.343	.500
Main income:			
Agriculture	----	----	-----
Business	.880	1.040	1.802
Employment	.355	.322	.635
Casual labour	.037*	.001	.843
None	.893	2.750	1.835
Asset score:			
0-5	----	----	-----
6-10	.239	.618	.294
11-20	1.602	2.927	.355
>21	3.031	6.482	.484
By landholding:			
No land			-----
<0.25 acres			.000
0.25-0.99			1.204
1 – 2.99			.697
3 - 4.99			9.182
>5 acres			1.196
By landholding:			
No land	----		
< 1 acre	.702		
1-5 acres	17.307+		
>5 acres	1.074		

Table A3.5: Borrowing from rural SACCOs

	Exp(B)
Sex:	
Men	-----
Women	0.15+
Marital status:	
Not married	-----
Married	0.19
Age:	
<40	----
>=40	47.96**
Education:	
Primary& less	----
Secondary & above	0.31
Asset score:	
0-5	----
6-10	0.15
11-20	0.23
>21	0.00

Table A3.6: Borrowing from friends and relatives

	Exp(B)
Sex:	
Men	----
Women	0.166+
Marital status:	
Not married	---
Married	0.187
Age:	
<30	----
30-44	0.075+
>45	0.073+
Education:	
Primary& less	----
Secondary & above	49.032**
Location:	
Rural	----
Karatina Town	0.056
Main income:	----
Agriculture	1.825
Business & Employment	10.462
Casual labour & None	
Asset score:	----
0-5	0.691
6-10	1.019
11-20	0.34
>21	

In the case of borrowing from friends and relatives, a secondary education is the most significant in increasing the odds that an individual will borrow from friends and relatives, at the same time being older and being a woman reduced the odds significantly. Since odds ratios are multiplicative, having secondary education, being young and male increases the odds hugely.